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**ECONOMIC AFFAIRS**

**No. 101**



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3 December 1980

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## NATIONAL POLICY AND ISSUES

### RELATIONSHIP BETWEEN PRODUCTION, EVERYDAY LIFE DISCUSSED

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 80 pp 53-58

[Article by Jiang Junchen [1203 0689 6591], Zhou Chaoyang [0719 2600 7122] and Shen Jun [3088 7786]: "The Relationship Between Production and Daily Life"]

[Text] 1. Since the Third Plenum of the 11th Central Committee set the policy that the work of the whole party should shift its focus and implement adjustment, reform, rectification and improvement of the national economy, the cause of socialist modernization has begun gradually to move into a healthy developmental path. In adjusting the proportional relationships of the national economy, the most important thing is how to deal effectively with dialectical relationship between production and daily life and suitably link development of production with improvement of the people's material and cultural level. This is an objective requirement of the fundamental economic laws of socialism, and a primary question which should be examined in developing perspective plans and long-term and mid-term plans.

Production and daily life are a unity of opposites; developing production is the means and improving the people's material and cultural life is the end. On the one hand, if production is not developed, so that there are not sufficient material conditions, it will be impossible to improve the people's material and cultural life; on the other hand, ultimately development of production is in the service of the people's livelihood. Daily life has a major reaction to production, because by improving the people's livelihood it is possible to provide extensive markets for production, continuously produce new demand for production, and create new avenues for sales. Under the socialist system, the working people are the masters of the state and of society; they are not only the owners and producers of material goods, but also the consumers. Continuous raising of the level of the people's material and cultural life through development of production is decided by the essence of socialist production relations. Comrade Mao Zedong pointed out that "after the new China is established, we will lead the people of the entire country in overcoming all difficulties, carrying out large-scale economic and cultural construction, eliminating the poverty and ignorance inherited from the old China, and gradually improving the people's material and cultural life."

In socialist economic construction, if we pay attention only to the decisive effect of development of production and ignore the reaction on development of production resulting from an improvement of the people's material and cultural life, and if we oppose production to everyday life so that the people are short of food and clothing, we will dampen the masses' enthusiasm, which will be harmful to the development of production. Accordingly, a serious study of the experience in dealing with the two sides of the relationship between production and livelihood since the state was established is of great significance for continuously adjusting the proportionality of the national economy, drawing up national economic plans and implementing the four modernizations.

In general, our country's 30 years of socialist construction have been a great achievement. We have already built ourselves up from a backward semi-feudalist, semicolonial country into a socialist country which has taken its preliminary form, has its departments rather well balanced, and has a relatively rich material basis. The fixed industrial assets resulting from 30 years of construction are already 25 times as great as those accumulated over more than 100 years in old China, which shows the superiority of the socialist system.

The people's material and cultural life has also undergone rather great improvements since Liberation. In 30 years, the total quantity of means of subsistence has increased quite rapidly; total sales of social commodities in 1978 had increased almost 9 times over 1950, and in 1979 there was also a real increase of 12.4 percent over 1978. But compared with the rate of development of production, the degree of improvement in livelihood is still quite slow, and the proportional relationship between production and daily life is seriously out of adjustment. As the report of the Third Plenum of the 11th Central Committee pointed out, a number of problems have accumulated over many years in the daily life of the rural and urban people. For example, the people are still having many difficulties regarding food, clothing, shelter and other necessities. In the last 20 years the real wages of staff and workers in this country have decreased. Some manufactured goods for everyday use are in short supply in the countryside, and the approximately 100 million peasants nationwide have less than 300 jin of grain rations a year. This differs considerably from the average level for the world population. We must make an effort to reverse this situation.

The year 1979 was the first year of this country's national economic readjustment, and the party and government have already made a great effort to improve the people's daily life and have obtained outstanding results. This year there was a rich harvest, with the total agricultural output value reaching 104.2 percent of plan, an increase of 8.6 percent over last year, so that peasant income has been increased rather considerably. In the cities, more than 7 million unemployed people have been placed in jobs, and the average wage of staff and workers has been increased considerably; residential construction in cities in town is progressing rapidly: within a year 62,560,000 square meters of housing space was constructed, equivalent to a tenth of the total amount of dwelling construction since the state was founded and to 60

percent of total dwelling construction since the First Five-Year Plan; and more than 4 million staff and worker families have moved into new residences. Urban and rural markets are active, and purchases and sales are both flourishing, and the supply of both staple and nonstaple food products and manufactured daily use products has been markedly improved. Of course, the above changes are only the beginning, and the problems existing in regard to the people's material and cultural life cannot all be completely solved at a stroke; only by implementing the "four point policy" and developing production can we gradually solve them.

2. The reasons for the proportional imbalance of production and everyday life and for the accumulation of a series of problems in regard to the people's livelihood are many. The principal one is the interference and sabotage of Lin Biao and the "gang of four"; the next most important is errors in our work.

A. The proportional imbalance of production and everyday life is the result of one-sidedly stressing the production of means of production over a long period of time and ignoring the production of means of subsistence, resulting in a grave proportional imbalance between the two, i.e. a proportional imbalance between agriculture, light industry and heavy industry. The proportional relationship between production of the means of production and production of means of subsistence is the basic proportionality indicating whether social production is harmonious, and also the basic proportionality of harmonization of production and daily life. The products of agriculture and light industry are for the most part means of subsistence which are used to satisfy and improve the people's daily life; the products of heavy industry are largely means of production which are used for simple and expanded reproduction. Accordingly the proportionality between production of means of production and production of means of subsistence is largely the proportionality between agriculture, light industry and heavy industry, and if this proportionality is inharmonious it will produce an imbalance between production and daily life.

In our 30 years of economic construction, because during the First Five-Year Plan and the period of adjustment in the 1960's the proportionalities of agriculture and light and heavy industry were relatively harmonious, the national economy expanded rather rapidly and the people's livelihood also experienced a considerable improvement. In the period of the First Five-Year Plan, the total output of industry and agriculture increased by 67.7 percent, average wages for workers and staff increased by 48.8 percent, and peasant income increased by 27.9 percent. Between 1963 and 1965, during the readjustment of the national economy, because the rate of development of the means of production was decreased and the rate of production of means of subsistence was increased, the national economy managed a rapid recovery and the people's livelihood also experienced an improvement. But in the Second, Third and Fourth five-year plans, because there was one-sided development of heavy industry to the exclusion of agriculture and light industry, the proportional relationship between agriculture and light and heavy industry was gravely out of balance, so that the national economy developed slowly, stagnated or even regressed, and the people's livelihood did not achieve the improvement it should have had.

In terms of the total increase in output value of agriculture and industry over 30 years, by 1978 there was an increase of 12.8 times over 1949, with an increase of 38.2 times for industrial output and an increase of only 2.4 times for agricultural output. Within total industrial output, the output of heavy industry increased more than 90 times and that of light industry only somewhat more than 19 times. If the 26 year period between 1952 and 1978 the growth rate of agriculture is taken as 1, the ratio of the agricultural and industrial growth rates was 1 : 11.5; the ratio of the industrial and light industrial growth rates was 1 : 6.7; and the ratio of the agricultural and heavy industrial growth rates was 1 : 20.6. We can see from these figures that one-sided development of industry had reached a striking degree. This could not fail to hinder the improvement of the people's livelihood.

B. Another important reason why the people's material and cultural life could not be improved for a long period was that the accumulation rate in distribution of national income was too high, accumulation funds were not properly distributed, and the utilization effectiveness of accumulation funds was poor. In the distribution of national income, the question of whether the proportionality between accumulation and consumption, the proportionality between use of accumulation funds for productive construction and their use for nonproductive construction, and the proportionality of the use of productive construction for agriculture, light industry and heavy industry, not only affect the harmonious development of each department's productive construction, but also directly affect the proportionality between development of production and improvement of the people's material and cultural life.

In the first place, an excessively high accumulation rate affects the rate of development of production and also the improvement of the people's material and cultural life. During the First Five-Year Plan, 75.8 percent of national income was used for consumption and 24.2 percent for accumulation, the scale of capital construction and the nation's financial and material resources were rather well matched, and accordingly the rate of increase of total industrial and agricultural output and the rate of increase of national income were both rather rapid, social buying power and commodity supply were basically in balance, and the people's livelihood experienced suitable improvement. Thereafter, in 1958 the accumulation rate increased abruptly to 33.9 percent, in 1958 it reached 43.8 percent, and within 3 years, although heavy industry grew more than 3 times, agricultural production decreased considerably, with the grain output falling by 25 percent. In 1961 and 1962 investment in heavy industrial production and capital construction had to be decreased sharply. Production and livelihood were uniformly in straitened circumstances, and the lives of the urban and rural people were in a rather distressed state. After 1970 the accumulation rate was maintained above 30 percent, the capital construction front was overextended, and the proportionalities of the national economy were seriously out of balance, so that the livelihood of the urban and rural people could not be improved.

Second, the proportionality between use of accumulation funds for productive construction and their use for nonproductive construction was out of balance. Since the state was founded, the proportionalities between production and



nonproductive construction in capital construction investment have been as follows: in 1952, 2 : 1; during the First Five-Year Plan, 2.5 : 1; during the Second Five-Year Plan, 6.6 : 1; during the Third and Fourth Five-Year Plans, 7-9 : 1; between 1976 and 1978, 5 : 1. With the exception of 1952 and the First Five-Year Plan, in all periods productive construction accounted for 80-90 percent of the total investments. Our country's steel output reached 30 million tons in 1978; compared with West Germany in 1959 and Japan in 1963, our country's productive construction investments accounted for 82.6 percent, while those in West Germany were 55 percent and those in Japan 54 percent, much lower than for our country; in the same period, the percentage of investment in our country for housing was 7.8 percent, that in West Germany 16.1 percent and that in Japan 23.1 percent, both larger than in our country.

Third, the proportion of productive construction funds used for agriculture, light industry and heavy industry is a basic reflection of the proportionality of development of agriculture, light industry and heavy industry. Whether or not this proportionality is suitable has a considerable effect on the proportionality of development of agriculture, light industry and heavy industry and also on the upgrading of the people's material and cultural life. If we take light industrial investment as 1, its ratios to investment in agriculture and heavy industry were as follows: in the First Five-Year Plan, 1 : 1.32 and 1 : 7.88; in the Second Five-Year Plan, 1 : 2.36 and 1 : 10.79. Between the Second and Fourth five-year plans, while agricultural investments increased slightly, investments in light industry were continuously held at more than 1 : 10. In the last 20 years, investment in light industry not only has not increased, but has actually decreased from the level of the First Five-Year Plan, while the proportion taken up by heavy industry, which was high at the outset, has been continually increased.

C. In the circulation area, there are many problems regarding transport conditions and circulation channels, the commercial network, commercial facilities and the like, which also have hindered the development of production and improvement of the people's livelihood.

First, although in the last 30 years transport conditions have improved greatly, compared with the development of production they are still unsuitable, and poor transport conditions and heavy loads directly affect the development of production and improvement of the people's daily lives.

As regards transport service mileage, between 1949 and 1978 railroads had an increase of 1.4 times, highways had an increase of 11 times, river transport mileage increased by 71 percent, and civil aviation route mileage increased 13 times. But because the proportion of investments on railroads and communications decreased continuously, while in the First Five-Year Plan railroads already accounted for 10.8 percent and communications for 4.8 percent, during the Second Five-year Plan railroads had dropped to 8.8 percent and communications to 4.4 percent. Thereafter, investment in railroads never again reached the level of the First Five-Year Plan. Although after 1975 investment in communications increased, it was still slow compared with development of industry.

At the same time, goods transport by water and land increased rapidly. Between 1949 and 1978, railroad goods transport increased 9.7 times, railroad goods transport increased 18.6 times, water goods transport increased 24.7 times, and coastal and harbor freight handling quantities increased 12.8 times. Clearly the increase in cargo transport greatly exceeded the increase in transport capabilities. Under these conditions, in order to assure transport of coal and other means of subsistence, transport of agricultural sideline products and market commodities were squeezed out, which gravely affected the requirements of the urban and rural people's material and cultural life and was detrimental to performance of foreign trade and export tasks.

In addition, the commercial network was small and its duties heavy, which created difficulties for the people's livelihood. Between 1952 and 1978, total purchases by state-run commercial departments increased 8.9 times, and total retail sales of social commodities increased 4.5 times, while total import and export increased 4.5 times. But while the scale of the network increased slightly, the corresponding network facilities decreased greatly in number. The number of network points in 1953 was more than a million, while in 1978 it had decreased to 170,000; the total operating area per thousand inhabitants was only 320 square meters, less than half of the standard operating area per thousand inhabitants of 700-800 square meters. On the other hand, in the last 20 years the number of wholesale stations increased considerably, the number of circulation links increased, and the rate of circulation decreased. The situation was similar in the supply and marketing cooperatives.

Clearly there was a grave insufficiency in the commercial network, its contradictions with the strenuous management tasks were acute, and it was poorly adapted to developing production and improving the people's livelihood. Accordingly, attention to harmonizing the proportionality between production and circulation is also an important aspect of developing production and improving the people's livelihood.

D. A poor foundation and a population that is increasing exceptionally fast are also important factors hindering improvement of the people's livelihood. Before Liberation our country had been subjected to more than 2,000 years of feudal rule and had suffered more than 100 years of encroachment and plunder by imperialism, and its productive forces were extremely backward. Although after Liberation production expanded greatly, because population increased too rapidly, and was not in accord with the rate of development of production, many difficulties resulted for job placement, increased consumption, improvement of labor productivity, improvement of living conditions, and development of scientific education.

According to statistics, of the total population, more than 650 million people have been born since Liberation; subtracting deaths in the last 30 years, the increase between 1949 and 1978 was 430 million people. Some comrades estimate that supporting the several hundred million people born since Liberation to age 16 when they become ordinary laborers requires about 1.4 trillion yuan. Every year about 20 million people need jobs. In 1957 there were about 24.5

million staff members and workers in our country, while in 1978 the number had increased to 94.99 million, almost quadrupling. With so many people needing jobs, it can only be a case of "five people eating three people's rice." Because of the increase in the number of people looking for jobs, although total wages for staff and workers in our country increased from 15.6 billion yuans in 1957 to 56.9 billion yuan in 1978, an increase of 3.6 times, the average wage did not increase much; in 1957 it was 637 yuan, in 1977 it was 602 yuan for staff and workers in enterprises owned by the whole people, and in 1978 it was 644 yuan. Because the labor force in the countryside increased greatly, the average amount of agricultural land per worker was 8.8 mu in 1955 and 4.6 mu in 1978. In the last 30 years the output of agricultural sideline and light industry products in this country has increased considerably, but on a per capita basis the increase is very small, and there has been a decrease for some agricultural sideline products.

B. In the process of construction during the last 30 years, losses have been immense and waste shocking. A considerable proportion of the riches we have created have not really had an effect in expanded reproduction and improvement of the people's material and cultural life. For example, the 1958 proposals to "double steel output" and "carry out large-scale local steel refining" and the like wasted large quantities of material and financial resources and manpower. During the period when Lin Biao and the "gang of four" held sway and criticized the so-called "production only theory," incited to violence and incited people to "cease production and start a revolution," a large amount of national income was lost. When they proposed the policy of "mountains, decentralization, caves," and moved many plants to mountain valleys or built plants in mountain valleys, this not only produced large losses, but also left behind many hard-to-solve problems.

In addition, economic performance in all areas was poor, the equipment utilization rate was low, consumption of raw materials, processed materials, fuels and manpower was high, and there were product overstocks and losses and the like, which resulted in production waste, and this coupled with non-productive waste produced loss and waste fugues which were truly shocking. This both was unfavorable for the expansion of production and hindered improvement of livelihood.

3. In the last 30 years, we have had rich experience and profound lessons in harmonizing the proportionalities of production and livelihood. Now, as regards the drawing up of perspective plans and long-term and short-term plans, if we look ahead in a realistic way we can arrive at the following basic findings:

A. For a suitable solution of the relationship between production and livelihood, we first must solve effectively the proportionality between production of the means of production and production of means of subsistence, the proportionality between agriculture, light industry and heavy industry, and the proportionalities within them. Marx's principle of social reproduction tells us that when technical progress leads to an improvement in organic

structure, the means of production will take precedence over the means of subsistence in expansion. But production consumption for the means of production ultimately is connected with individual consumption, is always conditioned by individual consumption, and finds that individual consumption tends to shift. It is incorrect to believe that production of the means of production can be developed independently of production of means of subsistence.

As regards our country's past development of production of the means of production and production of the means of subsistence, i.e. its development of agriculture, light industry and heavy industry, since the Second Five-Year Plan the rate of development of heavy industry has been too fast and it has squeezed out light industry and agriculture and the people's livelihood. Accordingly, under present conditions, when the irrational structure of the national economy and the grave proportional imbalances still have not been fundamentally redressed, and when there are many long-standing problems of the people's livelihood which urgently require solution, we first should take agriculture as the basis and develop light industry greatly. At the same time, heavy industry should produce more products to serve agriculture and light industry, and give priority to satisfying the needs of development of the light textile industry, so that the rate of development of the light textile industry will constantly be higher than that for industry as a whole.

B. Under the socialist system, accumulation and consumption are basically in agreement. The proportionality between accumulation and consumption is in fact the relationship between expansion of production and improvement of livelihood, and between long-term interests and immediate interests. But they also have specific contradictions, and when national income is fixed, if accumulation is increased consumption will have to decrease accordingly; if accumulation is decreased, consumption will increase accordingly. The two must be suitably arranged.

To deal effectively with the proportionality between accumulation and consumption, we first must affirm that we must maintain a relatively high accumulation rate. Accumulation is the source of expanded reproduction, and is "the most important progressive function of society." If the accumulation rate is too low it will decrease the rate of development of the socialist economy, which is disadvantageous for implementation of the four modernizations and not in accord with the people's long-term interests. But experience proves that the accumulation rate should not be too high either, otherwise it will hinder improvement of the people's livelihood, and ultimately hinder the rate of development of the national economy.

When arranging the proportionality between accumulation and consumption, we should not simply limit ourselves to the accumulation rate, but rather should address ourselves to expansion of production and increasing national income. Although increasing the accumulation rate can increase accumulation funds, ultimately the scale of accumulation must be determined in terms of improving labor productivity and be decided by the size of the increase in national income. When the national income increases, even if the accumulation rate does not increase, the size of accumulations can increase.



Accordingly, in readjusting the proportionalities of the national economy, we must gradually decrease excessively high accumulation rates; on the basis of past experience, a decrease to about 25 percent is right. In addition, in the accumulation funds we must also decrease the proportion of productive capital construction investments and increase the proportion of nonproductive capital construction investments. The proportion of total investment used for productive construction investment in 1979 had dropped to 73 percent, but it is still a bit high. As soon as the question of developing construction is raised, some comrades believe that we must create new industrial and mining enterprises. In reality this view is incomplete. At present we already have more than 300,000 enterprises, and if we would take realistic and effective steps, thoroughly identify latent potential, better mobilize worker and staff enthusiasm and creativity and increase labor productivity and economic effectiveness, we could greatly increase output and raise national income. Currently an important hindrance to decreasing the accumulation rate is the fact that the capital construction front is overextended, and there are problems of "apparent decrease and hidden increase" and "apparent cessation and hidden continuation," and the like. These situations are harmful to readjustment of the proportionalities of the national economy and disadvantageous to adjustment of the relationship between production and daily life.

C. We must strengthen our economic summarization and survey work regarding commodity circulation, further increase the activity of economic work, and bring the positive reaction of circulation on production into play. Primarily this involves four problems. (1) We must change the old view and old method of determining sales in terms of production and selling whatever we produce, and change over to determining production in terms of need and using sales to stimulate production. Only in this way can we really give expression to the positive reaction of circulation on production while production determines circulation. Experience proves that only by readjustment based on the principle of adapting sales to the market and by having a clear understanding of the product orientation can we benefit the development of industrial and agricultural production and the improvement of the people's livelihood. (2) In the commodity circulation area, the questions of how to achieve free circulation of commodities and make circulation more lively will have an important effect in accelerating social funds turnover, decreasing expenditures, increasing profits and increasing social wealth. To achieve this, we must break out of two old minds as regards circulation. The first is the long-standing belief that means of production exchanged between enterprises owned by the whole people are not commodities and cannot be included in market circulation, thus eliminating the market's stimulating effect on production of the means of production. Accordingly, we must allow the means of production to enter the market as commodities. By adapting sales to the market through a combination of plan adjustment and market adjustment, we can satisfy the needs of production expansion in agriculture and light industry in timely fashion. The second is that as regards circulation of the means of subsistence, we must change the system of sole management of industrial products by state-run commercial enterprises and sole management of agricultural sideline products by supply and marketing cooperatives. We must institute extensive, varied

commercial channels and management methods which are based on state-run commercial enterprises and supply and marketing cooperatives, operate the commercial links in a more lively fashion, and accelerate commodity circulation. It is estimated that if we open extensive circulation channels we can decrease current stocks of certain commodities by half, thus saving a large quantity of circulating funds. (3) We must expand the autonomy of commercial enterprises. If we put the commercial departments into direct contact with the consumers, we can reflect changes in social needs in a timely and flexible fashion, thoroughly bring into play the dynamic role of commerce in harmonizing production and consumption, stimulate the development of industrial and agricultural production and improve the people's livelihood. (4) Communications and transportation are an economic link between production and consumption, between departments, and between geographical areas, and are the national economy's vanguard. Currently communications and transportation are relatively prominent weak links in the national economy, and a strengthening of communications and transport no longer brooks delay.

D. To harmonize the relations between production and livelihood, we must make a great effort to solve the problems of great waste, poor economic effectiveness and the like. If waste is not eliminated and economic effectiveness not improved, the work of adjusting the national economy will not be done well, it will be hard to implement the four modernizations, and it will be hard to harmonize production and livelihood.

There is much latent potential for increasing economic effectiveness. In 1978 this country's industrial fixed assets were already 320 billion yuan, and if the quantity of industrial goods furnished per hundred yuan of fixed assets could reach the 1957 level, total industrial output value would be increased by more than 100 billion yuan over the 1978 level. It is estimated that if we managed existing enterprises well without increasing the amount of equipment or slightly improved existing equipment, industrial output value could be doubled or even further increased. Our country is short on energy resources, but the utilization rate is low, and the difference in energy consumption between progressive and backward enterprises amounts to 400 to 500 percent or more. Moreover, there is also great latent potential for improvement of product quality and decreasing consumption of raw and other materials. If in 1978 the steel materials utilization rate in this country's machine building industry had achieved the best domestic level, we could have saved about 5,000 tons of steel; if it had reached advanced foreign levels, we could have saved more than a million tons. And because product quality is low and lifetime short, some parts and assemblies have to be replaced 3-4 or even 7-8 times as often as they should. Decreasing consumption, improving product quality, improving economic effectiveness, and reaching advanced levels as soon as possible is equivalent to increasing output severalfold or even tenfold. The reason why we have large amounts of waste and poor economic effectiveness, other than sabotage by Lin Biao and the "gang of four" and inadequate scientific and technical progress, is, in terms of the national economy, that there is insufficient management in accordance with economic laws, realistic approaches have not been taken, actions have not been in accordance with capabilities,

people have been affected by the "left" ideology and have one-sidedly sought "large size, comprehensiveness and speed," and actions have been rather seriously unsystematic; we do not give attention to bringing economic advantages into play on the basis of the economic situations in different areas, so as to accentuate strong points and eliminate weak points, but rather look after our own concerns and circumscribe our interests, use the self-contained attitude of small construction, run an "independent economic system" where both large and small enterprises carry on the entire production process, and do not take account of whether or not this is economically reasonable. In terms of the economic management system and operations management, first, the powers in the existing economic management system are too centralized, and production is organized on the basis of "the will of the superior officer," and basic-level enterprises lack autonomy, with the result that the quality of enterprise management has no direct connection with the interests of the workers or managers, which is detrimental to their enthusiasm for increasing economic effectiveness. Second, in the existing operations management system, no attention is paid to the objective requirements of socialist production and the laws of the commodity economy, there is too much centralized control of receipts and disbursements, the situation of "everyone served from the same pot" is ubiquitous, and everyone has become hardened to waste and losses in production and circulation.

To solve the problems of large amounts of waste and poor economic performance, we must first get the ideological line right and make improving economic effectiveness the standard by which all economic work is evaluated; at the same time, we must base ourselves on our country's conditions of great extent and large population, rich labor resources, complex natural conditions, and a poor foundation and limited funds, bring each area's advantages into play, and develop production departments requiring small investment, using large amounts of labor and producing a fast return. To improve economic effectiveness, we also must continue to implement the four point policy of readjustment, reform, rectification and improvement, work out through practice a set of economic management systems and economic methods suited to this country's conditions, and thoroughly bring existing enterprises into play.

Harmonizing the relationship between production and livelihood in reality is simply a matter of operating in terms of the objective requirements of the basic economic laws of socialism; it is a major theoretical problem, but even more it is a complex practical problem. The above not-yet-mature basic findings are proposed for everyone's discussion.

## NATIONAL POLICY AND ISSUES

### USE OF MODERN TECHNOLOGY WILL INCREASE EMPLOYMENT

Beijing GUANGMING RIBAO in Chinese 1 Aug 80 p 4

[Article by Pan Guangji (3782 0342 4694): "Advanced Technology and the Employment Question"]

[Text] There are some comrades who see the use of advanced technology and the raising of labor productivity only in terms of shrinking the factors of employment. They do not see that through advanced technology and higher labor productivity, the same number of people can generate more products, thus reducing costs and speeding capital accumulation, which allows more capital for expansion and reproduction and for the opening of new industries, which in turn paves the way for new employment opportunities. These comrades feel that raising labor productivity will put more people out of work. This is a one-sided view.

If we look only at one industry or one unit, then if the scale of production remains the same, increases in labor productivity will result in fewer people being needed. However, if we can organize the labor forces of the unemployed and those who are no longer needed, and use them to expand reproduction and to open up new industries, advancing along the depth and length of production, then the situation will be completely different. The key lies in the selection of the "suitable technology" to be used to expand employment and in the management of the abundant labor forces made available by the increase in labor productivity. If a good job is done in selection and management, then the greater the labor productivity, the faster the development of production, and the more the opportunities for employment, and there will be a speedy decline in the number of people unemployed. On the other hand, if there is a regression in the level of technology, there will be no expansion of production, labor productivity will not rise, and with an increase in population there will be an increase in the number of unemployed. In recent decades this has been proven in a number of countries. According to a U.S. information company, industries with advanced technology have twice the labor productivity of backward industries but offer nine times the number of employment opportunities. This shows that higher labor productivity has not lessened employment, but instead the expansion rate of production has surpassed the rate of rise in labor productivity and thus has greatly expanded employment.

Right after liberation, in order to solve the problem of large-scale unemployment left over from the old society and to place former workers, we had five people doing the job of three. This was all right as a special temporary measure. However, if it is used as a long-range plan to solve unemployment problems, then it must be



looked into further. On the surface, it seems to solve the problem of placing the unemployed in jobs right away, but this is a false appearance. All this does is to put the unemployed outside the realm of production and turn them into unemployed at production posts. Instead of having a portion of the people unemployed, everyone takes turns at being unemployed. Production capacity is not raised. By using the equipment of limited technology, productivity does not go up because a larger labor force is invested, and too many people will get in each other's way and affect production. Also with population growth, every day there are large numbers of people coming of age and entering the job market.

Thus, if we do not expand reproduction and do not open up new employment opportunities, but purely use simple reproduction to [try to] solve the problem of employment, it will be impossible to do so. It will only mean that fewer people are working and more people are idle, making many units overstaffed; with many people idle, labor discipline will become lax and there will be serious problems of dilatory work style. We must seriously examine the simplistic method of reducing mechanization and automation and using manpower to replace machines to solve our unemployment problems. This will cause the labor productivity rate of our entire society to continue to fall and will result in even more people being out of work. This way will not work. For example, if we used 18th century hand-operated looms instead of modern looms, we could make jobs for thousands of people, but we would not be able to achieve the standards of the modern textile industry.

To solve the problem of employment, fundamentally speaking, we must rely on continued scientific and technical progress, on greater labor productivity, and on expanded reproduction and expanded employment opportunities. Only when everyone's (including children's) productivity exceeds his consumption can we select manpower and materials for expanded reproduction, open up new industries, and increase opportunities for employment. Only this will gradually solve our employment problems.

## NATIONAL POLICY AND ISSUES

### INDIVIDUAL ENTERPRISES BEING SET UP IN TIANJIN

#### Regulations

Tianjin TIANJIN RIBAO in Chinese 26 Jul 80 p 1

[Article by Cai Yewen (3591 5509 2429): "Tianjin Promoting 'Mom and Pop Stores' and Other Individually Operated Establishments"]

[Text] As of today, independent workers in Tianjin can continue to process their requests to register as independent operators. The individually operating establishments being promoted, in addition to the urgently needed repair services and handicrafts, are the "mom and pop stores," "father and son stores," "brother and sister stores," and other forms of individual commercial enterprises. These individually operated commercial establishments already have approval to sell third-class small commercial products and some first- and second-class commercial products, such as articles for daily use, local specialty products and miscellaneous articles, snacks, light food and drink, spices, tobacco, liquor, candies, and vegetables, so as to fill the gaps left by the state-operated stores and the collective-enterprise store network.

The above measures were decided upon at a meeting on 23 July of the finance and trade bureaus and responsible persons from finance offices of some of the wards and counties convened by the Tianjin Finance Committee.

The Tianjin Finance Committee is carrying out a plan for appropriate expansion of individually operated enterprises based on social needs, as well as a policy of further easing the requirements and broadening the targets of individually operated enterprises. Unemployed young people who are not members of an agricultural household, idle workers, and retired workers with a certain skill who can employ one or two unemployed young people may apply for registration as individually operated enterprises. Employed workers and students at school may not resign, leave their work, or drop out of school to run individually operated enterprises. Their applications will not be approved. Individually operated enterprises can consist of one person, or of three to five people, and according to operating ability and conditions they can operate from fixed locations such as in front of or behind one's residence, they can be set up in a small stand in residential areas where the commercial network of stores does not reach, or the operators can carry their wares on their back and peddle them in the streets and alleys.

All commerce bureaus, finance organs, banks, and commodity-pricing departments will take steps to support individually operated enterprises in the areas of obtaining wares, loans, taxes and prices, to allow for suitable expansion. In the future, the main corporations of the state-operated commercial organs will supply the individually operated enterprises through their wholesale departments and retail-wholesale stores. Trade warehouses have decided to supply individually operated enterprises with barter goods. It has also been approved as being within the scope of the policy for individually operated enterprises to do their own purchasing. They may sell those products which they have made themselves or have reconditioned. Peoples' banks will open accounts for individually operated enterprises and will grant loans of certain amounts to those individually operated enterprises which have insufficient capital. Commodity-pricing departments will agree to the sales price of products sold by individually operated enterprises, and any products purchased from state-run enterprises will be sold at the advertised retail price. Barter products will be sold according to the catalog of barter products approved by the municipal government. The sale price of these products may be higher or lower, depending on the purchase price, and a reasonable profit may be turned, but the profit must not be too high.

Industrial and commercial management departments at all levels will continue to protect legal businesses and put a stop to illegal activities. In the process of expanding individually operated enterprises, they will manage organizational control and establish individually operated enterprise federations at the appropriate time. Concerned service departments will carry out direction and control of individually operated enterprises in the areas of supply policy, pricing policy, management policy, and product supply.

#### Commentary

Tianjin TIANJIN RIBAO in Chinese 26 Jul 80 p 1

[Article by Commentator: "Proper Development of Individual Businesses"]

[Text] Today our paper has published the news that individual industrial and commercial businesses will continue to expand in Tianjin. This is yet another step taken by Tianjin departments toward liberated thinking, market stimulation, and convenience for the masses.

At present, the commercial economy in China is not sufficiently developed. Social productivity is somewhat backward. Many handicraft and laboring trades still exist. Also, among these trades, there are many which are not included in the state or collective sectors of the economy, yet which are very necessary for social production and the peoples' livelihood. Therefore, there is a place for the individual sector of the economy. Not just at present but in the future there will be reasons for the existence of the individual sector of the economy. However, for many years we have had an economic management policy that was not suited to the actual situation. We adopted a policy toward the individual economy that was based on restrictions and elimination, attempting to get rid of the individual economy as soon as possible. As a result, several tens of thousands of convenience outlets are not around. Many small commercial enterprises have been eliminated. Large groups of individual laborers who were self-supporting had to hang up their "steel rice bowls." Commercial economic development was to a certain degree hindered. Even more serious was the fact that it put "blinders" on the people's thinking. They saw the development of individual businesses as "setting a tiger loose" as though our socialism would be swallowed up if there were an individual economy.

Last year, in accordance with the spirit of the Third Plenum of the 11th Party Central Committee, Tianjin industrial and commercial administrative control departments restored and expanded more than 3,000 individual - operated handicraft, repair, and service enterprises. In the past year, under the guidance of the leadership of the socialist state-run economy, these individual businesses have demonstrated their enthusiasm. For one thing, they have increased the wealth of the society, enriched the marketplaces of the towns and villages, and supported imports and exports. Second, they have filled in the gaps of the national and collective sectors of the economy and have opened up the field of services. They are active, convenient, and meet many of the needs of the people. Third, they have opened up job opportunities for the unemployed, lessened the burden of the state, and improved the livelihood of many citizens. The facts prove that the proper development of individual industrial and commercial businesses is beneficial both to the state and to the people. Should we not be happy to have such a good thing?

The proper development of individual industrial and commercial businesses is not something that can be implemented with the promulgation of one document and the holding of one meeting. There must be some specific and intricate ideological and organizational work carried out here.

First of all, our comrades, especially leadership cadres, must liberate their thinking and correctly recognize the nature and function of the individual economy. They should recognize that there are many comrades who have ideological shackles on concerning the question of development of individual businesses. For example, there are those who still have not gotten over being beaten or having to wear a hat because of this; some fear that individual businesses will take away their suppliers and steal their business, and that state enterprises will suffer. To remove these shackles from our minds we must restudy the spirit of the Third Plenary Session of the 11th Party Central Committee. Try to gain truth from the facts and summarize historical experiences. We must start off from the actual realities in China; we must start from the needs of society. We must correctly recognize the quality and function of the individual economy. We must analyze the nature of the individual economy. We must not look simply at the system of ownership, and we must not generalize that the collective system of ownership is unconditionally superior to the system of individual ownership. In scattered or mobile repair businesses and in service businesses, individually operated businesses are better. And we must not believe that individually operated businesses will naturally produce capitalism. Even more, we must not equate individual businesses with capitalism.

Secondly, we must truly relax our policy. That is, we must change the old policy of emphasizing restrictions on and elimination of individual businesses to one of active guidance and proper support as well as better control. These policy measures that have been taken by concerned departments in Tianjin, compared with the restoration and expansion of individual businesses last year, are all more lenient in the aspects of who can run them and what is to be their scope of operation, sources of goods, price control and tax policy. But if we really want these policy measures to be effective, they have to be carried out in concerned departments and units, be gradually refined in the process of being carried out, and gradually be improved. The party's line, direction, and policy are a very serious matter. Departments charged with their execution must not simply pay lipservice and then not take action. Even more, they must not purposely set up bottlenecks and refuse to execute the policy.



For the development of individual industrial and commercial businesses to proceed as they should, the most important thing is better guidance. A liberalized policy does not mean giving free rein. We must protect their legal operation, promote their positive aspects, put a stop to illegal operations, and restrict their negative aspects, so as to allow them to really become a complement to the state and collective sectors of the economy. This will promote the production of socialist commercial products and the exchange of products, and it will develop the social service enterprises. Stricter control is not an affair of one single department. Industrial and commercial administrative departments of ward and county governments must strengthen their guidance. Commercial, financial, and banking business departments must strengthen their guidance. They must work in coordination and in closeknit harmony to make a contribution to our city's prosperous economy.

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## NATIONAL POLICY AND ISSUES

### PRICING OF MANUFACTURED GOODS IN TERMS OF PRODUCTION COST DISCUSSED

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 5, 20 May 80 pp 37-43

[Article by Lu Nan [6424 0589], State General Office of Prices: "Problems of Pricing Manufactured Goods According to Production Costs Under Socialism"]

[Text] One of the hindrances which we encounter in discussing the reform of the economic management system and beginning its implementation is the fact that currently many commodity prices are unreasonable. If prices are not reasonable: (1) they are unable to reflect correctly each industry's contribution to society, and if under these conditions we implement withdrawals for the various funds at a certain percentage of profits, this will result in unequal benefit to different industries, which makes it difficult to encourage progressiveness, stimulate those who are lagging behind and mobilize enterprise and employee activism; (2) they make it harder for the enterprise to carry on correct economic accounting, so that it is difficult to weigh correctly the economic results of various technological measures and construction programs; (3) they make prices unable to exercise an effect in guiding production, circulation and expenditure, which is disadvantageous for adjustment and development of the national economy; (4) they decrease the correctness of calculation of output value and overall balancing in terms of prices by various departments of the national economy. Accordingly, in the process of reforming the economic management system, we urgently need reasonable price adjustment. But what kinds of prices are reasonable prices? What are the economic substantiation and standards for judgement of reasonable prices? These are questions which must be studied and clarified.

Prices are exchange relationships, and price levels directly affect the economic interests of both parties to exchange. If one party's price is high and the other's price is low, the one party will profit and the other suffer a loss. Accordingly, both parties in exchange must give consideration to price questions which affect the economic interests of both sides. It is a conclusion derived from many years' economic experience that we must admit that the socialist system of public ownership of the means of production, all enterprises were under collective ownership by the whole people or the workers, and their basic interests were in accord. However, socialist enterprises are

also independent of each other: they have relative independence. Every enterprise has to take responsibility for the funds and equipment allocated by the state, for the production and construction tasks assigned by the state and for its own employees' material interests, and as a result there are generally certain contradictions between enterprises' specific interests. Accordingly we must correctly handle the contradictions between their economic interests and the question of prices for the parties to exchange.

There must be a unified standard and yardstick for correctly dealing with contradictions between enterprises' interests and with the question of prices for the two parties to exchange, which we can use to determine whether or not prices are reasonable. If there is no such unified standard and yardstick, whoever is the more skilled in argument will have the better reasons on his side and will be able to get a better price for the products of his enterprise, while those who are not skillful in these activities will get worse prices. How, then, will we be able to harmonize the economic interests of the two parties to exchange and determine reasonable prices with an economic basis?

I believe that under the socialist conditions in our country, the standard for judging price levels for manufactured goods should be production costs. Only by requiring that prices of manufactured goods be determined in terms of production cost can we deal with the economic interests of the parties to exchange fairly effectively. Below we present some opinions regarding the determination of prices for manufactured goods in terms of production cost.

#### Production Costs Still Objectively Exist Under Socialist Conditions

Under socialist conditions there still exists a tendency to equalization of profits, and accordingly there must exist production costs. This is an objective requirement of socialized large-scale production and the commodity economy. Some people believe that there is no tendency to equalization of profits under socialist conditions, and that accordingly there are no production costs. The reason is that since there is no competition or free circulation of funds, there cannot be equalization of profits. It is true that under socialist conditions there cannot be free circulation of funds or competition such as under capitalism, but experience shows that under socialist conditions a certain degree of competition between enterprises is still needed. This competition creates a certain external pressure which stimulates the enterprises to improve management and to produce for socialism more good-quality, inexpensive goods which meet needs. As regards the question of free circulation of funds, a socialist country cannot refuse to invest in important items which affect the national economy and the people's welfare because the price is low. But low prices may hinder the growth of the development funds which these departments use for themselves, and also may affect the material interests of employees of these departments. The investing organizations must consider fund effectiveness for all investment items. Some high priced products may absorb larger investments; there are many examples. Some low cost products, particularly those in which price is lower than cost and which result in losses, may force the enterprises to decrease or even suspend their production; there are also many examples of this kind. This means that under socialist conditions there also exists the problem of fund transfer resulting from price

levels. Our understanding that under socialist conditions price laws can produce a certain regulating effect on production refers to this idea. Accordingly, a tendency to equalization of profits may exist objectively in socialist society, so that production costs must also objectively exist. It is only because equalization of profits objectively exists that we are able to use average profit as the yardstick for evaluating enterprise profit levels and as an economic lever to assist the rapid, planned, proportional development of the national economy.

#### The Significance of Pricing Manufactured Goods in Terms of Production Cost Under Socialist Conditions

1. Pricing manufactured goods in terms of production cost can stimulate socialist enterprises to give attention to conserving funds, and is in accordance with the requirements for development of modernized industry. Modernized industry differs from handicraft industry in requiring large amounts of funds. Its technical facilities are numerous, and it accordingly requires large fixed funds; it processes large quantities of raw and other materials and accordingly needs large quantities of circulating funds. The importance of funds in modernized production is increasing. In general, the greater the amount of equipment and raw and other materials, and accordingly of funds, per worker, the higher his labor productivity. But this is by no means unconditional. If the assets which he takes up do not have an effect on the production process, labor productivity will not increase. Accordingly, great attention must be given to the effectiveness of fund utilization. It is only when funds are thoroughly utilized that labor productivity can increase. For many years, our attention to the effectiveness of fund utilization has been quite inadequate, the utilization rate of large amounts of equipment has been quite low, and some of it has even been idle for long periods, materials have been in storage for too long, products have not met needs and have been difficult to sell, and the rate of circulation of funds has been very slow. Funds are accumulated bit by bit by working people through arduous labor, and if inadequate attention is given to their utilization and they are largely kept tied up, this is a waste of the workers' and peasants' labor, which ultimately will gravely harm the development of the national economy. Under the current conditions, in which we are extremely short of funds, a stress on conservation and utilization of funds is of particularly great importance.

To stress conservation and utilization of funds and to increase the effectiveness of their utilization, we must investigate their profitability rate and use the average profitability of funds to evaluate the profit levels of different departments and enterprises, and make the form of value transformation, i.e. production cost, the basis for setting the prices of manufactured goods. Some people suggest that if we use production costs as a basis for setting prices, we may encourage people to use more funds and to waste funds. This situation could arise if we used the current status of funds to determine prices. If we do not ask whether the sizes of fund holdings are reasonable and whether the trades which have large amounts of funds could earn greater profits, we will naturally encourage people to hold large amounts of funds.

If we use the same principle to determine prices in terms of average profitability of production expenditures or in terms of average profitability of wages we will similarly reach the conclusion that we can cause waste of capital and waste of labor. We submit that setting prices on the basis of production costs will help encourage conservation of funds, is a precondition for normal use of funds by enterprises, and does not fail to take account of whether or not the funds are normally used. Under these circumstances, setting prices on the basis of production cost can cause most enterprises to earn an average profit on funds and can keep enterprises with high production costs which tie up large quantities of funds from earning average profits. If an enterprise wishes to increase its profitability and make a greater contribution to society, it must make an effort in two areas: decreasing production costs and conserving funds. With normal fund utilization, when an enterprise's production cost decreases, its profits can increase and its fund utilization rate also can be raised; and if an enterprise can use smaller amounts of funds without increasing production costs, produce the same output, and obtain the same profit, this enterprise's fund utilization rate will also be increased. In this way we can encourage enterprises to pay attention to the conservation and utilization of funds, so that they can request the equipment and materials they need and not what they do not need. Otherwise the equipment utilization rate will be low, the amount of funds held will be large, circulation will be slow, the fund utilization rate will decrease, and their contribution to society will become smaller.

If prices of manufactured goods are not set on the basis of production costs and profits are not evaluated in terms of average profitability rates of funds, but instead the average profitability of production expenditures or the average profitability of wage expenditures is used to set product prices and to evaluate profit levels, it will not be profitable to exert the effects described above. Because production expenditures are funds which are expended in the production process rather than the total amount of funds, the level of profitability of production expenditures cannot reflect the nature of utilization of all funds or the effectiveness of their utilization. Funds not expended in the production process are not reflected, i.e. if an enterprise is holding large amounts of funds, the profitability of production expenditures will not be able to decrease very much. This naturally is unfavorable for conservation of funds. Because wage expenditures occupy an even smaller proportion of fund utilization, if average profitability of wage expenditures is used as the basis for setting prices, there will be even less relation to fund utilization by enterprises, and accordingly it will be even less favorable for conservation and rational utilization of funds.

Some people say that use of the method of fixed fund taxes and total circulating fund credit can solve the problem of making people pay attention to conservation of funds, and that it is unnecessary to take any further account of profitability of funds or to set prices in terms of production cost. Actually, the method of fixed fund taxes and total circulating fund credit does use effectiveness to reflect fund utilization and is in accord with the requirement to investigate fund profitability and consonant with pricing in terms of production costs. Only pricing in terms of production costs can guarantee that



after the enterprise pays the fixed assets tax and loan interest it will still be able to achieve a more or less average income. If prices are set on the basis of average profitability of production expenditures or average profitability of wage expenditures, it may happen that after some enterprises with high-level organic structure and slow fund circulation have paid their fixed funds tax and loan interest, enterprise earnings will be very small, or there may even be a loss. This certainly is not in the interest of modernized industry.

Setting of prices in accordance with production cost and using the average profitability of funds to judge the enterprise's profit level or economic effectiveness involves the following problem: in general it requires not that the use of new machinery save human labor, but that the wage saving be greater than the added embodied labor. This requires that the utilization of new machinery decrease production costs and increase fund profitability, otherwise people will believe that it has no economic effectiveness. This requirement will unavoidably limit the use of new machinery to some extent, and will hinder the improvement of labor productivity to some extent. This differs somewhat from people's belief that in the future when a communist society is implemented, provided that the increased labor consumption for creating new machinery is smaller than the labor saving from using it, there will be an economic effect and the machinery should be used. But in our period of socialist construction, we have limited funds, and our capability for creating new technological equipment is limited, so that we must consider the problem of which industries utilize funds more effectively. When they all need them equally, we must use our limited funds and new technical equipment in the trades which can replace the largest amounts of manpower, and in those which can decrease production costs and increase profits the most. This will be beneficial to the development of the socialist economy and can cause all of society's funds to be used more effectively and labor productivity to increase more rapidly.

2. The setting of prices in terms of production cost is in accord with the economic interests of all enterprises taking part in specialization and cooperation, and is favorable to the expansion of specialized production. If the prices of parts and assemblies and also of the complete machine are set in terms of profitability of production expenditures, there is no way of harmonizing the economic interests of the enterprises engaging in specialized production, because according to the requirements of this price-setting method, it is production expenditures that are used to calculate profitability. Because the production cost of the entire machine already includes the costs of the parts and assemblies, it will naturally also include the profits made on them, which will result in double counting of the profit. The more levels involved in cooperation, the more times the profits will be double-counted, and the higher the calculated price. This is an important reason why the prices of so many assemblies, machines and sets of equipment are so high in this country. Because the distribution of profits among the parts and components and complete machines is inappropriate, many enterprises consider that producing their own assemblies, completely assembling the finished machines and making their own equipment is an important way of "saving on expenditures," "decreasing production cost," "increasing profits," and "making a greater contribution." Obviously this is not favorable to development of specialization and cooperation.

If prices are set on the basis of average profitability of production expenditures, and average profitability of production expenditures is used as the standard for judging enterprise profits, cases where there really is a profit but an effort is necessary to achieve it will generally be thought to be cases of unprofitability or losing ventures and no one will want to pursue them. For example, when specialized production was implemented in the 1960's, a finished machine plant handed over the production of certain parts and assemblies to specialized plants and concentrated its own manpower and funds on the production of several major assemblies and assembly of the final machines; this greatly increased the output of finished machines and of parts and assemblies, and the profitability of funds was increased. Because the parts and assemblies that were handed over the specialized plants were specially produced in large lots, the production cost was much lower than when the finished machine plant produced them itself, but when the average profitability was added in, the price might be higher than the production cost if the finished machine plant produced them itself. Accordingly, the finished machine plant's parts and assemblies replenishment costs might increase, which was detrimental to the profitability of production expenditures for the finished machine. Accordingly, the finished machine plant felt that it suffered losses by implementing specialized production. In reality, because it had implemented specialized production, increased its output, increased total profits, and conserved funds, it had increased the funds utilization rate, and the enterprise did not suffer a loss but realized a profit. It was only because the investigation method were different than an actual profit was viewed as case of loss.

Such a problem could not arise if production cost were used as the basis for determining the price of the finished machine or of the parts and assemblies, and fund profitability were used to judge the profit level. Because profits are calculated in terms of funds, rather than in terms of production expenditures, this basically avoids the problem of double counting of profits. For an assembly plant and parts and components plants to carry out specialized production, provided there are the same amounts of funds, they can obtain the same profits, their profit levels are determined on the basis of funds, and the economic interests of the enterprises are harmonized. If the finished machine plant and the parts and components plants do not wish to engage in specialized production, they must increase their holdings of equipment, personnel, and funds, and because the production efficiency of a plant carrying out the entire production process is not as high as that of a specialized plant, if their profit level and economic effectiveness are examined in terms of funds they will be clearly seen to be low. This will restrict plants which carry out the whole production process and will encourage specialized production.

3. Setting of prices in terms of production cost and the use of average profitability of production expenditures to evaluate the profit level is favorable to implementation of the principle of small profit and large volume. Small profit generally means small profitability of production expenditures, and the profitability per unit product is somewhat lower. For some types of production, with a small profitability of production expenditures and a rather

low profit per unit product it is possible to achieve large sales volume, and the enterprise can achieve a higher total profit by expanding products sales than with sales at a normal profit, thus achieving a higher profitability of funds. If the average profitability of production cost is used to determine profit levels, and the average profitability of production expenditures is used to determine the price, it will be necessary to achieve the same profitability for production expenditures for each output unit, so that there will be no way to implement the principle of small profit and high volume.

4. Setting prices in terms of production cost is favorable to harmonizing the economic interests of the industrial and commercial links. When commodities leave the factory, generally they must pass through wholesale and retail commerce before they reach the consumer. Thus there arises the problem of how to harmonize the economic interests of the industrial and commercial links. Currently commercial profits are distributed on the principle of "greater for industry than for commerce," and in its implementation there are relatively many disputes between industrial and commercial enterprises. The comrades in commercial enterprises think that "greater for industry than for commerce" means that the distribution of profits between industry and wholesale commerce should not include retail commerce. The comrades in industrial enterprises believe that it should include retail commerce. "Greater for industry than for commerce" in distribution of profits refers to the distribution of profit on a commodity, not distribution of profitability. For example, if there is a profit of 1 yuan on an aluminum pot, the industrial enterprise should earn more than 0.5 yuan and the commercial enterprise less than 0.5 yuan. In reality, if we make the determination in terms of profitability of funds, the result of this kind of distribution is not necessarily "greater for industry than for commerce," but may give commerce a greater share than industry. If the factory price and retail price of a manufactured item are determined on the basis of production cost, industry, wholesale commerce and retail commerce all have the potential to obtain fund profits which are approximately at the average level, the disputes described above are relatively easy to settle, and the interests of industrial and commercial enterprises are easy to harmonize.

**Pricing of Industrial Goods in Terms of Production Cost, Combined with the Tax Lever, Makes It Possible to Handle State, Enterprise and Individual Income Better and to Bring the Economic Lever Effect Into Play**

One of the important problems which must be solved in the reform of the economic management system is that of setting up a system which implements the socialist principle of material interest. For the enterprises, this requires the linking of enterprise and employee economic interests to the quality of enterprise management. The withdrawing of a certain percentage of profits for the development fund, the collective welfare fund, and the employee incentives fund, which as a group are called the enterprise funds, is an important reform in implementation of the principle of material interest in distribution. Currently, irrational prices are gravely hindering the implementation of this reform. Only adjusting costs of industrial goods in terms



of their production costs, together with a reform of the tax system, will favor the implementation of this reform. Perhaps we can think of it this way: if prices of manufactured goods are set in accordance with production cost, the various industries will all have a chance to obtain fund profits which are roughly at the average level. Then, on the basis of fund holdings per employee, we can institute the principle of withdrawals for the enterprise funds according to a decreasing percentage (of profit), or of taxing income according to an increasing percentage. In this way we can both take account of the development needs of branches with different fund organic structures and avoid a great disparity between various enterprises' collective welfare and incentive funds. For example: assume that there are two industries: Industry A has 1 million yuan in funds and 20 workers, so that there is 50,000 yuan of funds per worker, while industry B has 2 million yuan in funds and 200 workers, so that there is 10,000 yuan per worker. If the average profitability of funds is 10 percent, and prices are set in terms of production costs, industry A's profit is 100,000 yuan and industry B's profit is 200,000 yuan. In terms of the need to expand production, the two industries could receive enterprise expansion funds at about the same percentage of funds; for example, 20 percent of profits can be taken out for both, so that 20,000 in funds will be withdrawn for industry A and 40,000 yuan for industry B. But in terms of withdrawals for the collective welfare and incentive funds, the two industries' percentages should not be the same. If they are the same, the welfare and incentive funds per worker will differ far too widely for the two industries. For example, if the withdrawals are both at 10 percent of profit, industry A will receive 10,000 yuan and industry B 20,000 yuan, which comes to 500 yuan per employee in industry A and 100 yuan per employee in industry B; one figure is several times the other. Accordingly, withdrawals for these funds cannot be made on the same percentage basis. The difference is the result of the different quantities of funds per worker, and the solution should be worked out in these terms. Deductions for the enterprise funds should be made in terms of a decreasing percentage in the case of different fund levels per worker in different industries; in the above example we may consider having the percentage of profits withdrawn for the enterprise fund in industry B be 30 percent and that in industry A be 25 percent. Or we can equate taxation to payment of part of profits by converting the payment of a percentage of profits to higher levels to a graduated income tax, so that enterprise B will have to pay a 70 percent income tax and enterprise A a 75 percent income tax.

When we say that production costs are the basis on which the prices of manufactured goods are determined, we do not mean that the prices of all manufactured goods always must agree with production costs. The production cost is simply a center of gravity around which the costs of manufactured goods can fluctuate. Its reflection in price setting will have to be based on different policy requirements and be differentiated according to circumstances. Equal value exchange should be the basic idea of price policy, and a large proportion of prices for manufactured goods should be in general agreement with production costs. The use of a divergence between cost and value (production cost) to achieve certain political or economic goals is also an important part of price policy. Accordingly, there will certainly be some

manufactured goods whose prices will be at variance with production costs. Temporary influences, such as temporary changes in the supply and demand situation for certain manufactured goods, can result in price increases or decreases which are at variance with production cost; but after production is adjusted and supply and demand reach a new equilibrium, prices should still be in general agreement with production costs. In the case of manufactured goods for which it is necessary to maintain a relatively long-term divergence between price and production cost, the state should use tax collection policy to adjust enterprise profits, and do everything possible to enable the enterprise to maintain roughly average fund profits, so as to harmonize the economic interests of different enterprises. In the case of tobacco, liquor and the like, it is necessary to adopt a policy of high prices in order to limit consumption, but in order to prevent the manufacturing enterprises' from exceeding average fund profitability, the state has adopted a high tax policy and has centralized these profits. In addition, when a low-price policy is adopted for some everyday necessities so as to keep the people's daily life stable, the state can use a low-tax or no-tax policy to make the enterprises able as far as possible to achieve average fund profitabilities.

Some comrades are concerned that setting prices in terms of production cost might cause large increases in the prices of products of industries with high-level organic structure, and large drops in the prices of industries with low-level organic structure. Experimental calculations indicate that if pricing in terms of production cost is combined with use of the tax lever, this kind of problem will for the most part not arise. At present, our country has modernized industries with high-level organic structure, and their product prices are generally rather high, so that basically there is no problem of a large increase in product prices in these industries. At the same time, in the case of certain industries which have a particularly great effect on the national economy and people's livelihood, which have relatively high-level organic structure, and need relatively large amounts of funds, a slightly low fund profitability rate would not necessarily have to be raised to the average for the society. Under socialist conditions, average profits are not absolute. Maintenance of rather low profitabilities in certain industries on account of the reasons mentioned above is both necessary and permissible.

#### Some Problems of the Specific Implementation of Pricing According to Production Cost

One difficult problem which must be overcome in pricing according to production cost is how to calculate simply and easily the price which corresponds to average fund profitability for each type of manufactured goods. Under capitalist conditions, commodity prices are formed in market competition, and market prices fluctuate around production cost as a center, so that in general each industry can realize an average fund profit level. Under our country's socialist conditions, the prices of the main group of commodities are set in planned fashion by the state, while those of the next most important group are also indirectly controlled by the state plan. Even when the state determines the price of every commodity, pricing according to production cost

must consciously embody production costs so that the enterprises can obtain roughly average fund profit levels for all products. Thus we need to solve the problem of how to compute simply the average fund profit which should be obtained for each commodity; if this problem is not properly solved it will be impossible to institute pricing in terms of production cost. In the case of industries with just one product, it is not at all difficult to calculate the average fund profitability that should be obtained for each output unit. But for industries which produce a wide variety of products, it is really quite difficult to calculate the quantity of funds used in the production of each product and the profit that should be obtained for it. Below we introduce a relatively simple and convenient method for general study and investigation. The method is as follows: we first use the average fund profitability rate to calculate the size of the profit which should be obtained industry by industry (the more detailed the subdivision of industries the better, and too coarse a division will not produce a good effect), after which we calculate the corresponding production expenditure profitability which each of these industries should have. The prices of the various commodities directly calculated for different industries using their different production expenditure profitabilities and suitably related to average fund profitability are in general agreement with production cost requirements, and by and large can enable enterprises to obtain roughly average fund profits.

Marx and Engels made the following penetrating analysis of the relationship between fund profitability and production expenditure profitability: "If we now calculate profit on the basis of the production cost of a commodity, we will obtain a profitability  $P/K$ , where  $P$  is the profit realized in a year and  $K$  is the total production cost of the commodities produced or sold in the same period. Obviously, this profitability  $P/K$  can only be equivalent to the real profitability  $P/C$ , i.e. the profit divided by total capital, if  $K=C$ , i.e. if the capital is turned over exactly once in the course of a year."<sup>1</sup> "When the turnover figure (i.e. for 1 year - Author) is less than the total capital, the profitability calculated in terms of product production cost will be higher than the real profitability calculated in terms of total capital; ... if the total capital is less than the turnover figure, the profitability calculated in terms of production cost will be lower than the profitability calculated in terms of total capital."<sup>2</sup> Marx' and Engels' incisive analysis of the relationship between capital profitability and production expenditure profitability tells us that when the fund profitabilities of the various industries are generally equal, the production expenditure profitability will be equal to the average fund profitability for industries with a fund turnover period of 1 year; for industries with a fund turnover period shorter than a year, the production expenditure profitability will be less than the average fund profitability; and for industries where the fund turnover period is longer than a year, the production expenditure profitability will be greater than the average fund profitability. For example, let there be 3 industries, each of which has 1 million yuan in funds, and an average fund profitability of 20 percent. If funds turn over once a year in industry A, so that total capital is equal to production expenditure for a year, assuming an average fund profitability of 20 percent, the profit will be 200,000 yuan, and the production

1. Marx, "Das Kapital," Renmin Publishers 1975 edition, Vol 3, p 253
2. Marx, "Das Kapital," Vol 3, p 254

expenditure profitability will also be 20 percent. If funds turn over twice a year in industry B, so that total production expenditure in a year is twice the total funds, or 2 million yuan, then using the average fund profitability of 20 percent, the annual profit will be 200,000 yuan, and the production cost profitability will be 10 percent. If the funds turn over 0.8 times in a year in industry C, so that total production expenditure is 800,000 yuan, the annual profit calculated from an annual fund profitability of 20 percent will be equal to 25 percent of total production expenditure.

The relationship between fund profitability and production expenditure profitability can be shown in a table as follows:

	Funds (yuan)	Annual turnover rate	Annual pro- duction expenditure (yuan)	Profit calculated at 20% fund profitability (yuan)	Percentage of production expenditure (production expenditure profitability)
Industry A	1 million	1	1 million	200,000 yuan	20%
Industry B	1 million	2	2 million	200,000	10%
Industry C	1 million	0.8	800,000	200,000	25%

If we express this in formulas, the relationship is:

$$\text{fund profitability} = \text{production expenditure profitability} \times \text{annual fund turnover rate}$$

or

$$\text{production expenditure profitability} = \frac{\text{fund profitability}}{\text{annual fund turnover rate}}$$

Because

$$\text{fund profitability} = \frac{\text{annual profit}}{\text{funds}} \times 100$$

$$= \frac{\text{annual profit}}{\text{funds}} \times \frac{\text{annual production cost}}{\text{annual production cost}} \times 100$$

$$= \frac{\text{annual production cost}}{\text{funds}} \times \frac{\text{annual profit}}{\text{annual production cost}} \times 100$$

$$= \text{annual fund turnover rate} \times \text{production expenditure profitability}$$

3. Regarding calculation of fund turnover, "Das Kapital" says: "In commercial experience, turnover is generally calculated incorrectly. Provided that total commodity prices reach the same level as total capital used, people believe that capital has been turned over once. But it is only when the total commodity production cost is equal to the total capital that capital turns over completely." ("Das Kapital", Vol 3 p 254). The latter method is used to calculate fund turnover in this article.



we have:

$$\text{production expenditure profitability} = \frac{\text{fund profitability}}{\text{annual fund turnover rate}}$$

It is only because of this relationship between fund profitability and production expenditure profitability that we can use the industry-by-industry production expenditure profitability to establish specific product prices which are in accordance with production cost requirements.

Pricing in terms of the industry-by-industry production expenditure profitability is the usual method of setting factory prices of manufactured goods. But the commercial link generally sets prices in terms of sales profitability.

$$\text{sales profitability} = \frac{\text{profit}}{\text{sales}} \times 100.$$

There is also a specific relationship between sales profitability and fund profitability:

$$\begin{aligned} \text{fund profitability} &= \frac{\text{annual profit}}{\text{funds}} \times 100 \\ &= \frac{\text{annual profit}}{\text{funds}} \times \frac{\text{annual sales}}{\text{annual sales}} \times 100 \\ &= \frac{\text{annual sales}}{\text{funds}} \times \frac{\text{annual profit}}{\text{annual sales}} \times 100 \\ &= \text{annual fund turnover rate calculated in terms of} \\ &\quad \text{sales} \times \text{sales profitability}, \end{aligned}$$

so that

$$\text{sales profitability} = \text{fund profitability} / \text{annual fund turnover calculated in terms of sales}.$$

The annual fund turnover rate for each industry calculated in terms of sales divided by the average fund profitability gives its sales profitability corresponding to average fund profitability. If the commodity sales price for the commercial links calculated with this sales profitability rate is in accordance with the average fund profitability, under normal rational management conditions all of the commercial links will obtain fund profits which are roughly at the average level.

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## NATIONAL POLICY AND ISSUES

### PRICING OF MANUFACTURED GOODS ACCORDING TO QUALITY DISCUSSED

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[Article by Yang Hongdao (2799 1347 6670): "On the Problem of Pricing Manufactured Goods In Terms of Quality"]

[Text] Pricing according to quality is an important principle of our country's price policy. Conscientious implementation of the principle of pricing according to quality is an important embodiment of the state's correct use of the price laws in support of socialist construction.

Pricing according to quality is the use of quality grades to set the prices of commodities of the same kind and different quality; this causes quality differences to be reflected in the price so that good quality receives a good price, poor quality a low price and equal quality equal prices. In a socialist society, continuous improvement of product quality is one of the basic tasks of all production departments. Product quality strongly affects the vital interests of the masses, the speed of socialist construction, and the implementation of the four modernizations. Without quality there is no quantity; without high quality, it is hard to maintain a rapid pace. Accordingly, actively taking steps to produce continuous improvement in product quality is the main task of leading organizations at all levels and enterprises. And pricing according to quality is an important method of causing product quality to improve continuously.

There are a good many problems involved in pricing according to quality. This article is intended to propose some simple views regarding the economic basis for pricing according to quality and several related problems.

#### 1. The Economic Basis of Pricing According to Quality

Every commodity has utility value, and without utility value it cannot be a commodity. But the utility values of different commodities are different and cannot be compared. The reason that commodities can be exchanged is that they are all products of labor. They embody the expenditure of a certain amount of labor. Labor has a dual nature. Specific labor creates utility value,

while abstract labor creates value. As values, all commodities have the same nature, and can be compared numerically. Accordingly we can carry out exchange. Any commodity has both utility value and value. There are no commodities without utility value, and utility value without value does not constitute commodity. Commodities are the unity of utility value and value.

The value of a commodity is determined in terms of the socially necessary labor required to produce it. Exchange at equal value is the basic principle of the theory of value. In practice, because it is impossible to calculate socially necessary labor directly and precisely, we use such formations as production cost, profit, taxes and prices to approximately reflect value and its changes. The production cost, profit and tax of a product approximately reflect the embodied labor and labor value added expended on a commodity during the production process. Products on which considerable embodied labor and labor value added are expended have high production costs and accordingly high value; in the reverse case the value is low. However, the embodied labor and labor value added which we are describing here refer to "the working time required to produce any unit utility value under the existing standard social production conditions and using the social average labor proficiency and strength" rather than the actual labor consumption for an individual enterprise.

Quality is one of the principal expressions of product utility value. Commodity utility value is not of the same nature in different commodities and accordingly is not comparable. But for products of the same kind it is of the same nature and is comparable. Pricing according to quality is taking comprehensive account of the commodity's utility value situation when determining price so that the price will correctly express quality differences among products of the same type. But just what is the economic basis for pricing according to quality? Is it utility value? Since price is the monetary expression of value, is pricing according to quality still an expression of changes in the commodity's value?

To answer this question, we must make an analysis in terms of the various factors which make a commodity's quality high or low.

#### A. Differences in the Material Quality of Raw or Other Materials

Differences in the material quality of raw or other materials (including the manufacturing formula) are a principal factor producing high or low product quality. They can affect such internal qualities as its neatness and its brightness and luster: for example, a change to copper or aluminum where iron was generally used as the starting material, or a change to plastic where cloth was formerly used. Although the same raw or other materials are used for certain products, because moisture-proofing, rustproofing, heat treatment or other special processes are used, the materials are changed, which affects the commodity's quality. These types of material differences in the raw or other materials directly express differences in the embodied labor reflected in the commodity. When there are changes in the embodied

labor, there are changes in the commodity value. Pricing according to quality must manifest these changes and make different prices express the quality differences.

#### B. Differences of Production Technology or Conditions

Some enterprise use rather precise equipment, have a high level of mechanization and automation, use relatively rational and advanced production processes and have relatively scientific and economical product design, so that in general the products they produce have higher quality than those of enterprises with relatively poorer production technology and conditions. For example, in such industrial departments as machine building, instrument making and metallurgy, in order to bring the products to a certain level of precision and improve their capabilities, remove interior or exterior product defects and the like, it is necessary to provide relatively good production technologies and conditions. Differences in these respects reflect to a certain degree differences in the embodied labor in the product, and in particular they reflect differences in the effectiveness of the labor value added in the production process.

#### C. Differences in Degree of Technical Proficiency

Differences in the degree of technical proficiency of the workers have a major effect on product quality, as everyone understands. In the same 8 hours' work, highly proficient workers can produce more and better products, while not very proficient workers will produce fewer and worse. Even the same worker can produce a few inferior articles along with many products which are up to standards. The production circumstances in which the different technical proficiencies of workers can result in products of different quality in the same working time express the difference between complex labor and simple labor and between high-level labor and low-level labor. Marx said: "Higher-level more complex labor is just as much an expression of the labor force as social average labor. However, this type of labor contains more educational expenditure than simple labor, and more laboring time has been expended on its creation; accordingly it has higher value. If the value of this labor is higher, its expression is high-level labor, and accordingly its objectification in a given time period is a relatively high value."<sup>1</sup> He also said: "In the process of formation of each value, high-level labor must constantly be reduced to social average labor; i.e. one day's high-level labor is reduced to X days' simple labor."<sup>2</sup> Accordingly, commodity quality differences resulting from differences in worker proficiency levels still may be embodied as differences in the amount of labor value added to a product. The acceptable and inferior products produced by one and the same worker can also be referred to the problem of the number of days' simple labor to which one day's actual labor reduces. These differences are all crystallized in the product value. Accordingly pricing according to quality must express the product quality level produced by these factors; its economic basis is still value.

#### D. Different Packaging and Transport Conditions

1. Marx, "Das Kapital," Renmin Publishers 1953 edition, Vol 1, pp 217-218

2. Marx, "Das Kapital," Vol 1, p 219



Differences in product quality are produced not only in the production area but also in the circulation area. Such matters as whether or not the packaging is attractive and strong and whether or not it can assure that the product will not be damaged during transport also affect the product's quality. Generally, people set considerable store by the shape, pattern, color and material of the packaging of certain commodities such as cosmetics and handicraft and art items, and their transport requirements are also relatively stringent. There are many particular packaging requirements for preservation of the quality of certain products; for example, the packaging of objects exported to tropical regions must be moisture-proof, acid-resistant and salt-resistant. The packaging of some items actually forms part of the product itself, as in cigarette packages, wine bottles, candy wrappers, cookie boxes and the like. Accordingly, for many commodities the presence of packaging and its quality has a major effect on its quality and its sales. Many customers only choose products on the basis of the attractiveness of their packaging. Sometimes the labor of packaging and transport accounts for a large proportion of the product's value. Differences in packaging and transport result from differences in the embodied labor and labor value added in the circulation process. The commodity circulation process is a process of actualization of commodity value. The labor expended on packaging and transport is productive labor and is also value-creating labor. Accordingly, the product quality resulting from differences in packaging and transport also reflects differences in commodity value.

#### E. Differences in Natural Conditions

This type of factor is mainly expressed in the excavating and lumbering industries. For example, coal is obtained by excavating natural deposits. It has no value in itself: its value is determined by the amount of labor utilized in extracting it. In terms of its individual value, the more labor expended the greater the value. However, the utility value of this product differs in accordance with different natural conditions. With the expenditure of the same 8 hours of work, the coal extracted from some mines will have low average ash content and high quality, and can be sold for a high price; the coal extracted from other mines has high ash content and low quality and can only be sold for a low price. The difference in these price levels is produced by different land rent levels resulting from differences in the richness of these resources, and the different land rents are part of the value created by labor and are the size of the difference between individual value and social value. Accordingly, pricing in terms of product quality resulting from different natural conditions also uses value as the economic basis.

#### 2. The Relationship of Quality to Production Cost

Above we used an analysis of the five main factors which produce differences in product quality to show that quality differences in products of the same type almost all reflect differences in embodied labor and labor value added in the production process and differences in product value, and thereby explained that the economic basis of pricing in terms of quality is product value.

Does this mean that when implementing the principle of pricing according to quality we should only consider changes in product value, while changes in utility value are not relevant? Of course not.

First, the aim of pricing according to quality is the setting of price in terms of product quality, so as to encourage continuous improvement of the products of all enterprises and thus help develop the national economy and accelerate modernization construction. Since quality is the main expression of utility value if we fail to take into account changes in utility value how can we set prices according to quality?

Second, a product's utility value is the material bearer of value. Although it does not constitute a physical embodiment of value, cannot determine whether a product's value is large or small, and accordingly is not an economic basis of pricing according to quality, because the utility values of products of the same type of the same nature and are comparable, and as because, as we said above, product quality changes reflect value changes, there is accordingly a definite relationship between changes in the quality of products of the same type and their value.

We can make this clear by means of an example.

Suppose that under standard social production conditions, producing a light bulb requires the expenditure of an hour of labor, which is expressed as a value of 0.5 yuan; production of two light bulbs requires the expenditure of 2 hours of labor and is expressed as 1 yuan of value. This means that in the production of a given kind of product, if the utility value produced is doubled, the amount of socially necessary labor expended on it, and its value, are also doubled. Here the utility value and the value are in direct proportion.

Now suppose that by improving its technology an enterprise has increased light bulb quality, so that the lifetime of a light bulb is increased from 1,000 to 2,000 hours, and one light bulb gives as much use as two other light bulbs. Now provided that the social value of such light bulbs is unchanged, the value which is expressed by the high quality light bulbs produced by this enterprise will accordingly be doubled.

The above example makes it clear that provided a commodity's social value is unchanged, changes in the utility-value quality of a given type of product produced by an individual enterprise will affect the amount of value which it contains.

But in practice, value cannot be directly and precisely calculated. Changes in value generally are roughly reflected in changes in production costs. Accordingly, pricing according to quality in production is really use of changes in production cost as the economic basis. We distinguish individual production cost and social production cost. We use social production cost rather than individual production cost as the standard in reflecting changes in value. Changes in individual production cost (regardless of how much it is related to changes in product quality) can only affect the size of profit or

loss of the enterprise which produces and manages the product in question and cannot form a basis for pricing in terms of quality. Accordingly, what we call pricing in terms of quality is really use of the social production cost of products of a given type with a certain quality standard as a yardstick to judge many products of the same type produced by different enterprises. If a product's quality exceeds this level, its value is correspondingly increased, and we apply the principle of a good price for good quality; conversely, when a product's quality is lower than this level, its value should correspondingly decrease and the principle of low price for poor quality is implemented.

Here we should point out in particular that even though the economic basis of pricing in terms of quality is social production cost and not individual production cost, we cannot on this account neglect an understanding of the relationship between pricing in terms of quality and individual production cost. In the principle of pricing according to quality, individual production cost levels directly affect state, enterprise and employee interests. This is because when product quality is increased, individual production cost falls below social production cost, so that the enterprise not only provides society with more high quality products, but also can achieve excess profits. Thus the enterprise can furnish an increased material base for state finance, for enterprise development and for the employees' material interests. If product quality is poorer, and production cost is too high, it is very hard for the enterprise to earn ordinary profits and it may even suffer a loss. This is disadvantageous for the state, for the enterprise and for the employees. When implementing the principle of pricing in terms of quality, we must grasp both product quality and decreased production cost. If product is improved and at the same time production costs are greatly increased, this is not a true increase in product quality. Similarly, methods which aim only at output quality, which manufacture in a slipshod way or cut corners, which pass off the inferior as the good and which sacrifice product quality to achieve decreased production costs are also not true decreases in production cost. These two incorrect tendencies are at odds with the principle of pricing according to quality and must be overcome.

### 3. Some Associated Problems

The following related problems must also be taken into account in the pricing of manufactured goods according to quality.

#### A. Pricing According to Quality and Price Stability

Price stability is a guiding principle of our country's pricing policy. All pricing work must conscientiously implement this principle. How should it be implemented when pricing industrial goods according to quality?

First, we must recognize that pricing according to quality is not in contradiction with price stability. Price stability is not equivalent to frozen prices, and pricing according to quality does not mean price fluctuation. If we do not use the principle of pricing according to quality for products

of the same type but with different quality, but instead sell them at the same price, the consumers will compete to purchase the good-quality products and the poor-quality ones will not be in demand. Thus we must compel the leading departments to take steps leading to suitable price variations of commodities according to quality differences. In summary, there are always differences in product quality, and only by suitably adjusting prices according to quality can we preserve price stability. Accordingly, pricing according to quality is not a rejection of stable prices but a necessary measure for producing stable prices.

At the same time, we must also realize that in socialist society, because the production activism of the masses of employees is brought into play, the technological revolution, the technological innovation movement and the "emulate, learn from, catch up with, help, surpass" labor competitions are developing, and the quality of raw and other materials is being improved, the quality trend of manufactured goods is continuously upward. If as soon as quality is improved the price increases accordingly, this will result in continuously increasing prices, which is not in accord with the principle of price stability. Accordingly, when pricing manufactured goods according to quality, we must thoroughly take this point into account. All prices which should not increase must be resolutely kept unchanged, to guarantee the stability of the overall price level.

In general, the following circumstances should not affect price in an uncontrolled way:

- (1) A change in quality but only a slight difference from the original standard;
- (2) The original product did not meet the specified quality standard, and now it has achieved the standard by dint of an effort;
- (3) Quality was previously dropping and the price was not correspondingly lowered, and now the initial quality has been restored;
- (4) Because of the needs of socialist construction of actual circumstances, the state has set a new higher product quality standard, and the product quality is being judged by the new standard: the price may not be raised on the basis of the earlier, lower standard;
- (5) An enterprise has pursued quality in an unreasonable way, and has unnecessarily used high quality materials or special processes;
- (6) Products which have a major effect on the people's livelihood.

The above circumstances all assume that the initial price was basically reasonable. If the original price was really somewhat low or high, it should be adjusted. But this is not a problem of pricing according to quality, but rather a problem of adjusting prices. In sum, we must both use pricing



according to quality to stimulate production expansion and quality improvement and prevent the use of pricing according to quality as an excuse for concealed price increases. Only in this way can we guarantee correct implementation of the principle of stable prices and make the work of pricing according to quality exert its positive effect.

#### B. Pricing According to Quality and the Supply-Demand Relationship

In a socialist planned economy, the means of production are primarily distributed according to state plan, and their prices are basically unaffected by supply-demand relationships. But for various reasons, scarce items (i.e. items whose supply cannot meet needs) or surplus items (whose output exceeds needs) among the means of production. These problems generally should be solved by adjusting the plan, but suitable use of price levels can also produce a certain effect on the supply-demand relationship. In addition, if the prices of new products among the means of production are too high, so that units consider them to be unprofitable, this may also affect their sales. As regards means of subsistence, with the exception of those that are essential to the people's basic livelihood, their prices should be affected to a certain extent by the supply-demand relationship. If prices are high, less will be bought; if prices are low, more will be bought. Accordingly the supply-demand relationship is a factor which must be taken into account in price setting.

How should supply-demand relations be taken into account in pricing according to quality? According to the principle of pricing according to quality, any product whose quality is increased should have an increased price. But if this product is a type that is available in excess, it is in a state in which supply exceeds demand, and its price should not be increased. Accordingly, prices should generally be decreased for products whose supply exceeds demand in order to find buyers and decrease overstocks. If it is possible to improve quality, this may have the effect of decreasing overstocks by increasing utility value and opening sales avenues. In this case if we increase the price we may eliminate this possibility, so such steps are not suitable. In some cases when there is a clear increase in quality and production costs have also increased somewhat, if there is confidence that markets can be found, prices may be suitably increased with consideration of conditions. But the extent of the price increase should be less than the size of the increase in quality, in order to stimulate extended utilization of the product.

Conversely, if the product is in short supply, i.e. in a condition where supply is insufficient to meet demand, and if there has been some decrease in quality, should we decrease the price accordingly? We know that in socialist society, the state and the people both request that enterprises continuously improve product quality. Decreased quality is not in accord with the needs of socialist construction. Accordingly, in the case of products whose quality has decreased, in order not to allow the consumer to suffer a loss, and in order to encourage the enterprise to strive to improve product quality, even when supply is inadequate to meet demand, we should steadfastly implement the policy of pricing in terms of quality and decrease the price accordingly.

### C. Pricing According to Quality and Price Levels

Another problem which must be taken into account when pricing according to quality is product price level. The price level is generally expressed in three ways:

- (1) The size of product profitability. This generally is compared with the average profitability for the department. If the profitability of a product exceeds the average profitability for the department, its price level is high; and if it is lower than the average profitability for the department its price level is low.<sup>1</sup>
- (2) Price comparisons with other products. Those which exceed reasonable price comparison relationships have a high price level and those which are below reasonable price comparisons have a low price level.
- (3) Price connections with the same products in other areas. If they exceed reasonable area differences, the price level is high and if they are less than reasonable area differences the price level is low.

These three relationships must sometimes be considered in combination, while at other times we can make an analysis on the basis of a single datum and the decision must be made in terms of the specific product.

Every product has its own price level. Some of them are reasonable, some are too high and some are too low. Generally, price levels of most products are basically reasonable. Even if they are slightly too high or too low, they do not have any clear effect on pricing in terms of quality, and they may be ignored. But under two circumstances they must be analyzed and studied. One is in the case of products whose price level is too high and whose quality has increased. In such circumstances, we cannot mechanically increase the price accordingly on the basis of pricing in terms of quality. This is because the fact that the price level is too high means that a decrease in the price should already have been considered. Now, the quality has improved, reflecting an increase in both the utility value and the value, so that the initial price squares with the value trend, countering the excessively high price level. When product prices are arranged in each annual plan, in the case of the product whose original price level was too high, in view of the increase in quality the price should be either not decreased or slightly decreased so as to achieve a reasonable solution. The other circumstance is in the case of products whose price level is slightly too low and whose product quality has declined somewhat. Under these circumstances, it also is not suitable simply to impose the corresponding price decrease. On the one hand it is necessary to encourage the enterprise to take steps to restore quality and on the other, while maintaining the precondition of quality a reasonable arrangement of prices should be effected in order to solve the problem of the prices' having originally been too low.

1. The product profitability discussed here is the average product profitability for all plants in the department producing the same product. For example, if the average profitability for a machine building industry department is 30 percent, that of all plants in the blower industry 50 percent and that for all plants in the machine tool 10 percent, in general terms the price levels for blowers are high and those for machine tools are low.

Finally, it must also be borne in mind that when changes have occurred in a product's quality and after analysis and study the difference in production cost has been calculated, the relevant data have been mastered, all relevant problems in all areas have been comprehensively taken into account and it has been determined that the price should be changed in order to implement the policy of pricing according to quality, the specific method can differ according to the circumstances. When product quality is improved, the specific method of pricing according to quality can be that of suitably increasing the prices of products with high quality and not changing the prices of older products; it is also possible to maintain the original price for high-quality products and suitably decrease the prices of older products; or it is possible to suitably increase the prices of high-quality products and at the same time suitably decrease the prices of older products. All of these approaches can achieve the aim of pricing according to quality. Whatever method is most suitable should be used, and the principle of an increased price for increased quality should not be followed invariably. When the quality has decreased, the price should generally be decreased. But the method of decreasing the price can be that of using past data to delimit quality grades in advance so as to determine the percentage of the decrease. For example, we may divide the products into grade 1, grade 2 and ungraded; the prices for grade 2 products can be set at 80 percent of those for grade 1 products and those of ungraded products at 50 percent of those of grade 1 products; or they may be divided into main products and supplementary products or into standard and utility products and the like, and the prices decreased according to a predetermined percentage. This will enable the producing enterprises to grasp the situation in advance so that they can promote a decrease in their number of supplementary or inferior products and increase the percentage of products meeting the standard. Or a temporary review of prices can be made on the basis of changes in quality. Only if we proceed in this way will the pricing of manufactured goods according to quality be able to adjust to the different circumstances of different kinds of products and more effectively stimulate improvement of product quality, thus exerting a greater influence on the development of the national economy.

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CSO: 4006

## ECONOMIC PLANNING

### GUANGDONG CHANGES POLICIES ON EMPLOYMENT OPPORTUNITIES

Guangzhou NANFANG RIBAO in Chinese 12 Sep 80 p 1

[Article: "Rewrite Policies To Open Up Job Opportunities; More Than 700,000 Jobs Are Expected To Be Filled This Year and Next; From Now On, Intellectual Youths Will Not Be Distributed According to 'Fixed Direction'"]

[Text] At the Provincial Employment Conference held yesterday (the 11th), various policies relating to the subject of employment were rewritten according to the guidelines established by the Party Central Committee concerning the solution of the labor employment question, and in accordance with the actual circumstances of this province. It has been decided that "both door leaves" (liangshan men) shall be opened wide to provide more job opportunities in order to develop both collective economy and individual economy.

This conference was held under the auspices of the provincial people's government. Altogether, 305 persons attended the conference. Those attending included leading comrades of various districts and municipalities and comrades representing the labor bureaus of various areas, municipalities, and counties, plus responsible members of the intellectual youth organizations. The conference was presided over by Guangdong Provincial Party Committee Secretary and Vice Governor Wang Quanguo [3769 0356 0948].

After the conference was opened on the 5th, the comrades attending the conference participated in an enthusiastic discussion about the guidelines decided on by the Party Central Committee concerning employment--that is, liberating thinking, relaxing policies, developing production, opening up employment opportunities, implementing job placement by [government] labor departments, and coordinating between voluntarily organized employment and those who seek employment under the government's unified leadership and according to its overall plan. The consensus of opinion was that these guidelines were perfectly suitable to the actual circumstances existing in this province today. Some of the major factors contributing to the employment problem include the "overly rigid" labor system, irrational employment structure, and serious dislocation between the educational system and the labor system. In order to solve problems related to labor employment, we must reform the entire economic system which includes the labor system as part of it. The fundamental path we must take is the path of carrying out, under the government's unified leadership and according to its overall plan, job placement by labor departments and coordinating between voluntarily organized employment and those who seek employment, by aggressively expanding collective economy which is responsible for its own profit or loss and also the individual economy which does not exploit others.



The conference considered that by allowing this province to take special policies and flexible measures in its external economic activities, the Party Central Committee has already helped this province develop its strongpoints, opening up employment opportunities and promising a prosperous future. Based on the characteristics of this province and its strongpoints, we should put more emphasis, this year and next, on the following areas in order to achieve the objective of opening up employment opportunities:

- 1) Develop various handicrafts and production of handcrafted art objects;
- 2) Develop commerce and service industries;
- 3) Aggressively expand compensatory trade and the processing and assembling industries;
- 4) Develop the building industry and the building materials industry;
- 5) Properly develop individual industry and commerce; and
- 6) Continue to manage well the joint agricultural, industrial, and commercial enterprises and agricultural, forestry, animal husbandry, and fishery activities in the rural areas.

According to a preliminary estimate, if these six items are managed well, more than 500,000 jobs can be created. Added to this, the employment by whole people units, filling vacant positions, and temporary job arrangements, more than 700,000 job placements can be expected to be made this year and next.

The conference considered that for the present, in order to facilitate the development of both collective economy and individual economy, the range of business operations for collective enterprises as well as individual operators should be relaxed, while the taxation system and the management system should be reorganized and improved. After an enthusiastic discussion, the conference passed the following resolutions concerning reorganization of the various existing policies: 1) Change the progressive tax to a proportionate tax. In addition to the exemption of income tax for the first 3 years for all newly organized collective enterprises, the 3-year tax-exemption status will be extended to existing collective enterprises which establish in the cities a number of people waiting for the employment in excess of 60 percent of the present total number of employment and 1.5 years tax-exemption status will be extended to those which establish a number of people waiting for employment in the range between 30 and 60 percent of the present total number of employment. 2) Banks should be permitted to open accounts for the selforganized collective enterprises and individual economy and to issue loans to those units which are in need of financial assistance. 3) As for matters related to the supply of raw materials and the distribution of goods and resources, all enterprises should receive equally good care and enjoy the same rate of discount as do all nationally operated enterprises. 4) Those who are waiting to be employed by the various collective enterprises and the individual operators may start calculating their job seniority from the day their business license is issued. Retired skilled old workers and old artisans should be allowed to help young men who are waiting to be employed organize collective enterprises. 5) No unit may exchange without compensation anything belonging to the collective enterprise, be it personnel, finances, or physical property. The management fee charged must be reasonable, and if the profit after taxes is too high, it must be lowered proportionately. 6) The graduates of urban middle schools shall not be distributed according to "fixed direction." They should be placed within the cities, insofar as possible. Employ-

ment problems of those who cannot be placed within the cities must be solved by the joint efforts of the cities and the villages, arranged cooperatively by the combined industry-commerce enterprises and the suburban intellectual youth troops. The food relationship of the urban operators shall remain unchanged.

The conference concluded that vocational education and labor employment are closely related. [The former] has a great impact on raising the quality of the labor reserve force. In view of the present lack of cooperation between the educational system and the labor system, we recommend that middle school education should be reformed. It should put more emphasis on vocational training so that the educational system may become more compatible with the labor system.

Comrade Wang Quanguo spoke at the conclusion of the conference. He explained with emphasis that the employment policy of opening "both door leaves" is not a temporary measure but a fundamental guideline. This guideline must be implemented thoroughly and firmly. We must boldly explore every road, as long as such roads are beneficial to stability and unification and to the construction of the four modernizations.

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C50: 4006

## ECONOMIC PLANNING

### DEPRECIATION OF FIXED ASSETS DISCUSSED

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 80 pp 62-67, 52

[Article by Liu Biao [2692 2871], Ministry of Finance, and Tian Chunsheng [3944 2797 3932], Main Office, Construction Bank: "Several Problems of Depreciation of Fixed Assets in This Country"]

[Text] Recently, in investigating reform of the economic system, there has been extensive discussion of questions of depreciation of fixed assets in this country, and many excellent ideas have been put forward, which has unquestionably been helpful in improving this country's system of depreciation of fixed assets. However, some comrades believe that our country ought to use the rapid depreciation method used in developed capitalist countries, increasing our country's fixed assets depreciation rate on the basis of their depreciation periods. Otherwise, timely renovation of fixed assets may be hindered and technical progress impeded. We do not agree with this view. We believe that although the current fixed assets depreciation rate in this country is somewhat low, and should be suitably adjusted, adjustment of the depreciation rate should be based on our country's actual conditions and determined on a realistic basis; we must not mechanically copy foreign depreciation rates, much less use the fast depreciation method as used in the developed countries. Below we present some views on several relevant questions.

#### The Relationship of the Fixed Assets Depreciation Period to the Utilization Period

There must be an objective basis for determining the depreciation period for fixed assets. This objective basis is Marx's statement: "Calculation in terms of the average period over which they maintain their capabilities."<sup>1</sup> This means that the utilization period of fixed assets should be predicted in terms of three factors, their utilization conditions, "effect of natural forces" and unseen depreciation, and used to determine the depreciation period should be the same as the predicted utilization period of fixed assets; theoretically they should be in agreement. Only this approach is in accord with the function of depreciation as compensation for original fixed assets.

1. Marx, "Das Kapital," Renmin Publishers 1975 edition, Vol 2, p 176

In some countries which base themselves on a planned economy, the depreciation rate is based on the principle of having the two be the same. In Romania the average depreciation rate nationwide is 4.2 percent, and the depreciation period and the utilization period are approximately 24 years. This depreciation rate is slightly higher than the one used in our country, but the difference is small. The fast depreciation method used in developed capitalist countries is characterized by a divergence between the depreciation period and the utilization period. The compensation of value is much faster than necessary to compensate for the actual objects. When these countries set their depreciation rates high, this does not mean that when fixed assets have completed their depreciation period they are discarded. Relevant data and statistics indicate that in the United States the depreciation period for metalworking equipment is set at 10-20 years; but the utilization periods of only about a third of the equipment are within this time, while those of the other two-thirds extend beyond it. According to a report in *BUSINESS WEEK*, in 1,600 companies and factories surveyed, the average real utilization period for various types of equipment was 17 1/2 years, more than half again as long as the established depreciation period. Since the 1960's, in some developed capitalist countries the divergence between the fixed assets depreciation period and the utilization period has become increasingly marked. In the United States, for example, the depreciation period set by the government has gradually shortened, while the actual utilization period for machinery and equipment has shown a tendency to increase. According to the Soviet author S. Yelekeyev's "Depreciation of Fixed Assets in the United States Economy" the age breakdown of U.S. machinery and equipment is as follows:

(Percentage of total)

	Metal cutting machine tools			Press forging equipment		
Age breakdown	1963	1968	1973	1963	1968	1973
Less than 10 years	36.1	36.6	33.5	35.3	32.5	30.5
10-20 years	43.7	40.9	38.3	41.4	41.2	40.4
Over 20 years	20.2	22.5	28.2	23.3	26.3	29.1

If the above data given by *BUSINESS WEEK* and Yelekeyev are true, the actual utilization period for machinery and equipment in the United States is about 15 years, which is not much longer than the depreciation period for machinery and equipment in this country. According to accounting statistics for this country for 1978, the average fixed assets depreciation rate for industrial enterprises was 4.1 percent, and the depreciation period was 24 years (calculated without subtracting the residual value; if the residual value is subtracted, the depreciation period is less than 24 years; the same applies below). This depreciation rate is an overall rate which includes both machinery and equipment and buildings and structures. Buildings and structures account for 37 percent of fixed assets, and if we calculate in terms of a depreciation period of 50 years, the depreciation rate for this part of fixed assets is 2 percent. Machinery and equipment account for 63 percent of fixed assets



and the depreciation rate is 5.4 percent, with an average depreciation period of 18 years, 6 months. This means that the United States actual utilization period for machinery and equipment is about 16 years, while in our country it is about 18 years, which is not a very large difference. Accordingly, what differs relatively greatly from advanced capitalist countries is not the utilization period but the depreciation period. We use the normal depreciation method in which the depreciation period and utilization period are the same to calculate depreciation, while the developed capitalist countries make their calculations by the accelerated depreciation method in which depreciation period is at variance with the actual utilization period.

The developed capitalist countries' use of the accelerated depreciation method is the result of their social systems and economic characteristics. By using this type of depreciation system they can enable capitalists, and particularly monopoly capitalists, to gain large excess benefits. The shorter the depreciation period, the larger the depreciation allowance received by the capitalists every year, so that there is an imaginary increase in production costs and a corresponding decrease in profits, resulting in payment of a smaller income tax to the government. This tax decrease in reality represents an additional subsidy given to the capitalists by the government, which represents the capitalists' interests. Its economic significance is that it encourages the capitalists to recover their investments as fast as possible, expend capital accumulation, actively adopt new technologies, and consolidate and strengthen their competitive position. Even though the bourgeois government has set the accelerated depreciation rates in order to support and invigorate the capitalists, because of the internal contradictions of the capitalist system it still cannot enable them to escape from their economic depression and crisis.

The capitalist countries' accelerated depreciation method cannot be implemented by all companies. If certain small and medium-sized companies take too much depreciation, their profits will fall and they will have to cut back on dividends and bonuses, and the resulting losses generally will be greater than the tax savings advantages. Because the monopoly capitalists are rich in capital and have strong competitive ability, they reap the greatest benefits from accelerated depreciation. This is why we say that in reality the capitalist countries' accelerated depreciation method mainly serves the monopoly bourgeoisie.

We are a socialist country and the economic relationships between the state and the enterprise are based on the needs of national economic development and are adjusted in a planned way by the state's economic management system of the enterprises and by necessary economic measures. Provided that it is assured that the enterprises' fixed assets can be replaced and transformed at the proper time, the depreciation method in which the depreciation period and the utilization period are basically equal is favorable to effective management and to planned, proportional development of the national economy. If, as in the capitalist countries, we make the depreciation period very short, at variance with the actual utilization period for fixed assets, and set the depreciation rate very high, although the depreciation funds which the enterprise draws every year will be increased, the amount of profit which the

enterprise pays to the state will be decreased. As a result, state expenditures for capital construction investment and other various matters will be correspondingly decreased, which is unfavorable for adjustment of the national economy and implementation of the four modernizations. Accordingly, in studying the problem of depreciation of fixed assets in this country, we must start out from the overall interests of the national economy and must consider not only the enterprises' modernization and transformation needs but also the state's requirements for carrying out large-scale economic construction; neither should be overemphasized at the expense of the other. At present, in order to better stimulate the development of the four modernizations, we require a suitable expansion of enterprise financial powers. But the problem of expansion of enterprise financial powers should primarily be solved by reforming the system of profit distribution between the state and the enterprises. After combining downward delegation of financial powers with downward delegation of business powers and linking economic power with economic responsibility, we should adopt the method of retention of a part of profits, depending on the size of the enterprise's contribution, to give the enterprise the right of distribution of part of profits. Compared with the use of an imaginary increase in the depreciation rate to solve the question of enterprises financial power, is not this method more able to stimulate enterprise enthusiasm for improving operational management and increasing output and income?

#### The Relation of the Fixed Assets Depreciation Rate to Unseen Depreciation

Unseen depreciation of fixed assets is one of the important factors determining the depreciation rate. Too high or too low an estimate of unseen depreciation may have a major effect on the fixed assets depreciation rate. As everyone knows, there are two types of unseen depreciation of fixed assets. One kind is the loss resulting when the structure and capabilities of the fixed assets are basically unchanged, but because of continuing improvement of the labor productivity of the manufacturing departments, the social average labor consumption decreases and the value decreases, and the original fixed assets lose value. The other type is the loss resulting when new, advanced technological equipment with a greater economic results appears, so that continued use of the original fixed assets is not economically justifiable, and while the fixed assets have not yet lost their physical capabilities, they become obsolete ahead of time.

These two types of invisible depreciation both exist in our country. As socialist construction develops and labor productivity is continuously increased, product prices gradually fall. For example, in the 1950's the Jiefang automobile cost 21,000 yuan, while today the price has fallen to 14,000 yuan. Our country also should pursue faster development of science and technology and continuously bring forth new, more efficient advanced technological facilities. Accordingly, there will unquestionably occur unseen depreciation referable to technological progress. But under this country's specific circumstances, the way we take account of the unseen depreciation factor in determining fixed asset depreciation periods is vastly different from that used in the capitalist countries. As regards the unseen depreciation of fixed assets

resulting from increased labor productivity, when the factory price of production equipment falls, an enterprise's holdings of this equipment also lose value. In capitalist countries, any product with usefulness can become a commodity and can be sold off. Whether or not an enterprise's fixed assets are sold, capitalists always want to use the market price to estimate their real value. In calculating depreciation, if the capitalists did not take into account loss of value of fixed assets, they would feel that the depreciation was too small, and they would not be able to completely recover the capital originally invested in it and would suffer a loss. This is the reason why in working out the depreciation a capitalist country must take into account this kind of unseen depreciation. Although we are still a commodity producing society, the enterprises' fixed assets are used as instruments of labor, and other than a few unneeded fixed assets, in general they cannot be sold. Large decreases in the value of fixed assets mostly result from the state's decreasing the factory price of the equipment, so that all enterprises which hold this equipment have to adjust the value of their fixed assets downward at the same time. Because they are all enterprises under the socialist ownership system, there is no question of loss, it is merely that everybody makes a change in the price figure. Although the total depreciation funds drawn are less than the original investment, because the replacement value of the fixed assets is decreased, the possibility of replacement is assured. If the state only adjusted the factory cost downward and did not correspondingly adjust the enterprises' book value for the fixed assets, there would be even less question of any loss. On the contrary, because the enterprise would continue to draw depreciation funds on the basis of the original value of the fixed assets, by the time they were replaced the cumulative depreciation funds drawn would necessarily exceed their replacement value, so that the enterprise would obtain a sum for use in expanded reproduction. This is the necessary result of development of the productive forces of socialism, and it certainly does not require taking account of it in the depreciation rate as unseen depreciation.

When determining the depreciation rate, we must take account of unseen depreciation of fixed assets resulting from the appearance of new technology. For example, in the 1950's our country used side-blown converters to refine steel, and at that time their backwardness had not yet become apparent. By the time the advanced pure oxygen top-blown process had appeared in the 1960's, many shortcomings of the earlier process had appeared, and it was necessary to accelerate replacement and transformation. But because our country's technical policy is quite different from that of capitalist countries, to take account of this unseen depreciation we could not simply copy the method of the developed countries. Fierce domestic and international competition has forced the government and capitalists in the capitalist countries to use a relatively high depreciation rate and a rather short period for recovery of the investment in order to encourage the companies to adopt advanced technology and beat their adversaries in competition so as to survive. Under these circumstances, the depreciation rate not only thoroughly takes into account the fact of unseen depreciation, but exaggerates it in order to encourage upgrading of products. Our country's conditions are obviously different. In order to speed up economic development, on the one hand we must energetically raise

our scientific and technical level, make extensive use of the advanced achievements of science and technology, and do everything possible to use new more efficient technologies to equip our country's production enterprises, particularly the key ones; on the other hand, because at present our country's industrial foundation is rather weak, and manpower resources are extremely plentiful, we generally do not take the approach of discarding earlier equipment which is technologically rather backward, but instead use the principle of unearthing latent potential, remodeling and transforming, so that through technological transformation it is converted into advanced process equipment. A major characteristic of our technical policy is that we normally take account of progressiveness, but also of economy and capabilities in planning for the use of advanced, medium and backward process equipment, so as to use material resources and manpower resources thoroughly and obtain optimum economic results. Many years' practical experience in this country indicates that after industrial development reaches a certain scale, to unearth latent potential of older equipment, modernize it and transform it costs less than constructing new plants and procuring new equipment, produces faster results and gives a faster return. An example is the excellent results obtained by the Shanghai textile industry in equipment modernization and transformation. This industry's total industrial output value for 1978 had increased 6 times over 1949, while the profits paid to the higher levels had increased 44 times. Currently the financial income which it provides every year to the country is enough to construct nearly two bases on the same scale as the Shanghai textile industry. This achievement was accomplished primarily by unearthing latent potential of older enterprises and modernizing and transforming them, including repeated technological transformation of older equipment. Some equipment in large enterprises which is clearly backward and not suitable for use is not simply abandoned but rather is sold to medium and small-sized enterprises or collective enterprises for continued use, so that it continues to make a contribution to the state. Some industries with low-level organic structure and high labor intensity, such as certain light and handicraft industries, can also take the approach of using more manpower, which not only solves the problem of finding jobs for unemployed youth but also fills gaps where the technological level of machinery and equipment is low. Of course, machinery and equipment which consume large amounts of energy and raw and other materials, whose processes are extremely backward, which pollute seriously and which do not pay, should be used to only a limited extent and produced only to a limited extent, and should be weeded out.

Even in developed capitalist countries older backward machinery and equipment is not all abandoned. The capitalists are not stupid, in order to maximize profits they do everything possible to extend the useful life of fixed assets. They even remake certain fixed assets so that they can keep up with advanced scientific and technical standards. Some fixed assets are only mothballed in depressed conditions, and as soon as there is an economic recovery they are again put into production. This is an important reason why utilization periods of fixed assets in these countries are rather long.

**The Relationship Between the Fixed Assets Depreciation Rate and the Level of the Productive Forces**



The level of a country's depreciation rates is closely related not only to such factors as the nature of the social system and the technical policy but also to the country's scientific and technical level and the level of development of the productive forces. The reason why developed capitalist countries can greatly increase their depreciation rates is not only competitive requirements but also their objective capabilities. These countries' scientific and technical level and level of development of productive forces enable them to provide large quantities of advanced equipment for replacement. This is also an important way of finding markets for their immense productive forces. Otherwise the problem of excess production in the capitalist world would become more pronounced. Currently our country's scientific and technical level and its level of productive forces are still rather low. If we look at both the quantity and quality of our equipment, they are quite inadequate, and high-grade, precision, advanced equipment and highly automated equipment are in particularly short supply. Even at the present depreciation rate we still cannot provide the production equipment and raw and other materials which the enterprises want to buy with the depreciation funds they have drawn; the shortages are great. If we were to make a further large increase in the depreciation rate, the contradiction of money but nothing to buy with it would become even more pronounced and the funds for which purchase of commodities could not be assured would go everywhere, and would damage planning and wreck the overall balance of productive construction. This would of course be unfavorable to the development of the entire national economy. Historically, the depreciation rates of the developed capitalist countries also passed through a development process. When their scientific and technical level and level of productive forces were low, their depreciation rates were not very high. For example, before 1951 the depreciation period in France was 15-20 years, while later it was decreased to 8-10 years. Before 1950, the average depreciation period for equipment in Japan was set at 21 years. Starting in 1961, the depreciation period was repeatedly shortened, and currently the standard depreciation period for machinery and equipment is 7-14 years, while it is 10 years for metalworking equipment. In 1942 the United States promulgated "Announcement F" which set the equipment depreciation period at 20 years; the period for ferrous metallurgical equipment was 25 years, and that for metalworking equipment was 15-25 years (15-20 years according to other data), that for textile equipment was 40 years and that for railroad equipment 28 years. The depreciation periods were decreased in the postwar years of 1946, 1950 and 1954. The depreciation periods set by new depreciation standards in 1962 were 30-40 percent shorter than in 1942, and the average depreciation rate reached the current level of about 8 percent. In 1971 a 20 percent variation up or down from the 1962 levels was permitted. From this it can be seen that the current rather high depreciation rates in developed capitalist countries developed in several steps rather than being established all at once. The process of gradual increases in these countries' depreciation rates was also a process of continuous development of science and technology and the productive forces. If it is argued that our country's depreciation rates should be set in terms of the capitalist countries' depreciation rates, it would seem that we should also select the depreciation rates from the periods at which their scientific and technical level and productive forces level were equivalent to ours, for we absolutely must not rigidly adopt the depreciation rates prevailing abroad without looking into specific conditions.

Accelerating modernization of our country's process equipment is an extremely complex problem, which requires good work in all aspects and planned, gradual implementation. Currently some comrades advocate increasing the depreciation rate but have taken little or no account of material or technical conditions, and it seems that once the depreciation rates are increased antiques will turn into fashionable goods, outmoded equipment can be abandoned and advanced equipment will be available; but this is unrealistic. It must be said that the level of depreciation rates has a certain effect on economics and technology, but the decisive factor is still the development of the economy itself. Currently our country's economic strength is still rather weak, and our financial and material resources are limited; this is a real circumstance which we cannot fail to take into account when studying the fixing of our country's depreciation policy and depreciation rates.

For many years, in addition to our country's enterprises' using the depreciation funds which they draw to carry out modernization and transform fixed assets, the state has also given the enterprises large amounts of funds for equipment modernization and technical transformation in the form of financial associations and bank loans. Data from the relevant departments show that in 1978 funds in the form of state allocations and loans used for enterprise modernization of fixed assets and technical transformation amounted to 60 percent of the depreciation funds drawn by enterprises (including modernization and transformation funds drawn by the excavating and lumber industries on the basis of output, and not including some depreciation funds collected by the financial authorities from the enterprises and later returned to them). If these funds are added to the fixed assets depreciation rate, the real fixed assets depreciation rate for our country's industrial enterprise is not 4.1 percent but more than 6 percent. When our country's depreciation rate is compared with foreign depreciation rates, this factor must be taken into account.

The use of state allocations and bank loans to support enterprise modernization and transformation is aimed primarily at solving rather large-scale and industry-wide modernization and transformation, at overcoming weak links in the national economy at particular times and at stimulating the planned, proportional development of the national economy. Currently we must concentrate on seeing to the needs for energy, light textiles and certain urgently-needed raw and other materials and products which are in short supply, in order to help change the economic structure and stimulate economic readjustment. To solve this critical need by an across-the-board increase in the depreciation rate for fixed assets is clearly unsuitable, because the focus changes; it may change with the changing requirements of different developmental stages, while an increase in the depreciation rate must be relatively stable for a certain time. After the enterprise property system gradually changes over to self-management and economic self-sufficiency, i.e. when the state changes the method of collecting funds from the enterprises from the current two channels of profit payments and taxes to the single channel of taxes, the funds by which the state supports enterprise unearthing of latent potential, remodeling and transformation should come to an even greater extent from bank loans, so as to encourage the enterprises to make careful calculations, to manage and utilize funds effectively by economic methods and to bring greater economic effectiveness into play.

Currently, in addition to supporting enterprise modernization and transformation by allocations and loan funds, the state has also specified that large and middle-sized industrial enterprises must pay some of their depreciation funds to the financial authorities, who collect them and then return them to the enterprises for unearthing latent potential, remodeling and transformation. The enterprises feel that the amount of depreciation funds paid to the higher levels is very large and that the allocations are insufficient, which has artificially created many conflicts. This situation should be changed. We believe that the depreciation funds drawn by an enterprise (including modernization and transformation funds drawn by the excavating and timber industries on the basis of output) should in principle be totally retained under enterprise control, and should first be used to modernize and transform existing fixed assets, to bring the depreciation funds' function as compensation of fixed assets into play, to assure that enterprise fixed assets are constantly in excellent condition and that reproduction is continuously carried out, and to prevent modernization arrears resulting from transfer of depreciation funds. If all of the depreciation funds are retained by the enterprises, some enterprises, such as newly-founded ones, will get excessive depreciation funds and will not spend them all, so that there will be a certain surplus; some enterprises which were set up and put into production relatively early and which during a certain period paid all their depreciation funds to the higher levels, will accordingly have a small surplus and a large need, so that the funds will be insufficient. The work of adjusting these surpluses and shortages can be done primarily by the industrial corporations by the method of borrowing and repayment to their enterprises. At the same time, the role of banks should be brought more fully into play, so that they can make adjustments. The depreciation funds which enterprises are not using at the moment can be deposited in the banks, the banks can use these funds to issue loans to enterprises with insufficient depreciation funds, and these loans can be repaid by the enterprises from depreciation funds which they draw later or from retained portions of profits. In this way each enterprise's depreciation funds become its property and there is no uncompensated redistribution, which is not only in accord with the principle of respecting the enterprises' autonomy but also makes it possible to adjust these funds between enterprises for their use. This is much better than the method of having the state financial authorities collect the funds and then redistribute them, favors the enterprises' strengthening of their accounting and carrying out effective modernization and transformations, and is also beneficial to good and flexible use of these funds on a national scale.

#### The Relationship Between Successful Modernization and Transformation and Increased Depreciation Rates.

At present the fixed assets of some older enterprises in this country are outmoded and backward, and urgently require modernization and transformation. The reasons that they are behind in modernization are many. One is that before 1967 all of the enterprise depreciation funds were paid to the financial authorities, and at the time the modernization and transformation funds which were paid out to the enterprises were very small, so that the fixed assets were not modernized or transformed in timely fashion, and the necessary funds were not accumulated for use when it was time to modernize. This is an old historical debt. The second reason is that after 1967 the depreciation funds

were gradually released to the enterprises for their use, but a certain proportion of the funds was also transferred for new construction or expansion items. In accordance with Marx's principle that depreciation funds are both compensation funds and accumulation funds, it is permissible to use a part of the "precipitated" depreciation funds for some expanded reproduction. However, the depreciation funds must first be used to guarantee the modernization of older fixed assets and technical transformation, and after simple reproduction is assured they can be used for expanded reproduction. Accordingly, there are specific conditions and limits for the use of depreciation funds for new construction, expansion construction and large-scale technical transformation. If depreciation funds are used in excess for expanded reproduction over a long period, this will be detrimental to modernization and transformation of existing fixed assets. This is a new debt formed in recent years. A third reason is that certain enterprises' depreciation rates are too low. The country's current depreciation rates were basically set in 1951 during the nationwide stocktaking, and at the time they were by and large suitable. After 30 years of construction, our country's scientific and technical level and level of production forces have made relatively great advances. For some enterprises, the initial fixed assets replacement period has turned out to be too long, and is not helpful in stimulating scientific and technical progress. All of these reasons are stated in terms of funds, but the basic reason why certain enterprises have not done effective modernization and transformation is mainly that they lack a clear technical policy, unified leadership and comprehensive planning, they lack realistic and effective measures and strict management. Overall, currently unearthing of latent potential, remodeling and transformation are basically still in a state of draft and of "every man for himself," the funds are dispersed, management is chaotic and waste is serious. If we do not fundamentally solve these problems, even if we increased enterprise depreciation rates we still would not be able to solve the problem of modernizing existing enterprise process equipment. Accordingly, we believe that in order to do the work of unearthing latent potential in existing enterprises and remodeling and transforming them, we must strengthen leadership, join together all parties in close cooperation and promote a gradual orientation of existing enterprise toward modernization in a planned and systematic fashion. Our specific ideas are:

1. The state must have a completely clear technical policy which is suited to this country's conditions, and must implement all of its economic measures. All industries must draw up thorough long-term and annual plans for transforming existing enterprises on the basis of the requirements of the state's unified plan and technical policy, must fix the guidelines, policy and specific objectives for unearthing latent potential, remodeling and transformation, and must propose concrete implementation programs and gradually carry them out.

2. The plans for unearthing latent potential, remodeling and transformation must become the main component of the state economic plan. All items regarding unearthing of latent potential, remodeling and transformation must be included in the plan and balanced in unified fashion. All materials, equipment and construction forces must be given priority in dispositions, according to the principles of "production first, basic construction later," and "unearthing of potential first, new construction later," and their availability assured.



3. Economic committees and financial departments at all levels must make a major effort to strengthen their leadership and management of the work of unearthing latent potential, remodeling and transformation. They must do overall planning for disposition of projects for unearthing of latent potential, remodeling and transformation by all industries and enterprise units, must make determinations regarding materials, equipment and funds, and effectively carry out comprehensive balancing, eliminate waste and increase economic effectiveness. The China People's Construction Bank must both oversee basic construction allocations and oversee and manage the various funds for unearthing latent potential, remodeling and transformation on the basis of plans approved by the relevant departments. The work of holding and lending enterprise depreciation funds and adjusting surpluses and shortages is all to be managed in unified fashion by the construction bank.

4. Specific analysis of fixed assets modernization arrears must be made. In cases where in the past, enterprise depreciation funds were paid to higher-level financial organs or transferred for new construction, expansion construction engineering, and what was really expanded reproduction squeezed out simple reproduction, while capital construction squeezed out modernization and transformation, a special fund should be arranged every year from basic construction investment and the amounts gradually repaid. In cases of arrears in certain enterprises resulting from depreciation rates that were too low, the depreciation rate should be suitably raised in order to assure that the enterprise fixed assets can be modernized and transformed in timely fashion. Hereafter financial and lending departments at all levels may no longer collect enterprise depreciation funds to use for basic construction or other expenditures.

5. Determination of the depreciation rates for fixed assets should be based on our country's real circumstances, and our country's scientific and technical level, economic conditions and financial and material capabilities should be fully taken into account so as to determine them in a realistic way. In the future, as the scientific and technical level and the level of the productive forces are raised, the fixed assets depreciation rate should be gradually increased in a planned fashion. We must realistically change the current method in which one enterprise has only one depreciation rate, and should determine category depreciation rates and individual depreciation rates for various types of fixed assets on the basis of the different structures and capabilities of the fixed assets in question, so as to correctly calculate the depreciation periods for various types of fixed assets and to strengthen accounting and management of fixed assets.

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## FINANCE AND BANKING

### DANGERS OF PRC FOREIGN EXCHANGE CERTIFICATE SYSTEM NOTED

HK280550 Hong Kong SOUTH CHINA MORNING POST in English 28 Oct 80 p 6

[Article by staff correspondent]

[Text] A new "monetary system" introduced in China since April is creating a lot of problems and causing resentment among the people.

There are so many loopholes and the system has been so widely abused that, unless urgent steps are taken to remedy them, a crisis most damaging to the country's economy may well develop.

However, the authorities appear determined to persist with the idea--even after questions were raised at the National People's Congress and the Chinese People's Political Consultative Conference.

The controversy revolves round the issue of what is known as "foreign exchange certificates" in identical denominations as renminbi and equivalent in value to those of RMB.

These certificates are issued in exchange for foreign currencies taken into China. They are legal tender at all hotels, restaurants and friendship stores that cater to foreign visitors and, for all practical purposes, they are another kind of banknote in China.

But these certificates have an added aura. For only with these certificates can one purchase foreign products in the country. The indigenous RMB, by contrast, appears to be a poor cousin as it is not honored at any of the hotels and friendship stores.

This produces the effect of two currencies in simultaneous circulation in the country, the superior one being in the hands of visitors and the inferior one in the possession of local people.

Nowhere is this divergence more noticeable than in the big cities of Beijing, Shanghai and Guangzhou where these foreign exchange certificates are widely circulated and they become much sought after by the local populace.

In Guangzhou, these certificates are so prevalent that they practically replace RMB in many places and are used even on buses and taxis.

The immediate result is the emergence of two different classes of people: those in possession of foreign exchange certificates and the less fortunate ones who do not have access to these treasured notes.

This phenomenon was vividly illustrated in a trivial incident in Shanghai recently.

Early one morning, I bought two copies of JIEFANG RIBAO and WEN HUI BAO for eight fen at a newspaper stall in Huaihai Road. Having only foreign exchange certificates, I gave a 50-fen note to a man whom I believed to be the stall holder.

He was not the vendor but on seeing the note, he seized it, examined it, muttered: "Ah, new money," and, turning to the woman vendor next to him, asked her to give me 42 fen in RMB, promising to give her 50 fen, undoubtedly in RMB, later.

Obviously, the man was hoarding the "new money" until such time that he had enough to buy a foreign product of his choice--a packet of foreign cigarettes, perhaps.

A recent traveller told of an offer in Guangzhou to exchange 20 yuan in foreign exchange certificates for 20 yuan RMB, plus a catty of laichee.

There has also been abuse of the certificates.

At places other than the designated hotels, shops and restaurants, a visitor invariably receives change in RMB which cannot be used in establishments that cater to visitors.

Such RMB notes are almost worthless to the visitor in China as he cannot use them nor can he take them out of the country.

The controversial foreign exchange certificates were born out of another controversy.

When China opened its door to foreign visitors a few years ago, foreign currencies were freely circulated in the major cities so much so that foreign products could be bought only with foreign currencies such as the Hong Kong or U.S. dollar.

For a while, foreign currencies were legal tender in the streets of such cities as Guangzhou and Shanghai.

To remedy this situation, and to ensure that foreign banknotes did not circulate in the country, the state devised the certificate system and decreed that only foreign exchange certificates could be used for the purchase of services or products in places catering to visitors.

These notes are available in 10 fen, 50 fen, one yuan, five yuan, 10 yuan and 50 yuan. And though different in color from the RMB notes of the same denominations, they are, as the certificates stipulate, equivalent in value to the RMB.

The certificates, issued by the Bank of China, also stipulate that they "can only be used within China at designated places. No request to register its loss will be accepted by the bank."

Although the demerits of the certificates are apparent to most people, the authorities, however, remain unmoved over pleas that they be withdrawn, pleas eloquently put forward by many delegates to the recent sessions of the NPC and CPPCC.

Indeed, there are talks of the government issuing certificates of 500 yuan.

Apart from the arguments advanced by these delegates, there lies an even greater danger to the country's monetary system. Unlike RMB, these foreign exchange certificates can be freely taken in and out of the country--thus giving unscrupulous people an excellent opportunity to forge them.

And because the customs at the border posts do not ask any questions about these notes, one could literally take into China thousands of yuan in foreign exchange certificates without his having to register them as one would with any other foreign currency.

Indeed, there have been rumors, though unconfirmed, that some forged notes have been found in Guangzhou.

Because these notes are much sought after and because they are not as widely circulated as RMB, few people can tell whether a note is a forgery.

And even if one does realize he has come into possession of a forged note, he would hardly broadcast the fact but would try to pass it off to others.

Meanwhile, the new banknotes are being sought by a small group of far-sighted collectors, who believe that the authorities will one day declare these certificates invalid and they would thus become collectors' items and fetch high prices much as the old nationalist banknotes of the 1940's do today.



## FINANCE AND BANKING

### BANK OF CHINA, GUANGDONG DELEGATES DISCUSS FOREIGN EXCHANGE CERTIFICATES

Guangzhou NANFANG RIBAO in Chinese 19 Sep 80 p 1

[Article: "Questions On Foreign Exchange Certificates Addressed To Concerned Departments"]

[Text] At the Branch Forum of the Guangdong (People's Congress) Delegation, the delegates addressed questions on foreign exchange certificates to concerned departments.

To begin with, Deputy Director of the People's Bank of China, Bu Ming, spoke on the subject of the questions and ideas put forth during the past few days by the delegates with regard to foreign exchange certificates. Why are foreign exchange certificates being issued in the country? Do foreign exchange certificates constitute a kind of currency? Is their issuance a manifestation of inflation?

He provided explanations of the problems arising after the issuance of foreign exchange certificates and methods for improvements, among other topics.

Subsequently, seven delegates spoke. They were: Wu Kangmin, Wu Justian, Fei Yimin, Wang Kuangcheng, He Xian, Xu Lihua and Liu Tianfu. Everyone felt that Deputy Bank Director Bu Ming's explanations were brief and to the point as he stated the aims and functions of the state's issuance of foreign exchange certificates and expressed understanding of the initial plans which have been made for countering any problems which might arise. At the same time they brought out several different ideas. Emphasizing the new conditions and new problems manifested subsequent to the use in Guangdong of the foreign exchange certificates, the delegates performed elaboration and analysis, to wit: first, it is impossible to simply add in a little foreign exchange income on their accounts; more important is the fact that it is necessary to foresee the unsatisfactory influence this will bring upon governments both inside and outside the country. Second it is impossible to assert that foreign exchange certificates are not a form of currency and it should be acknowledged that in reality they have become a high-grade currency which in its circulation has already influenced the reputation of Renminbi. The delegate who spoke stated that a high degree of watchfulness must be directed toward the problems which have already surfaced and they must be treated seriously. Measures adopted for their resolution must fit in with the special conditions in Guangdong where there are many overseas Chinese and countless relationships with those abroad, all of which requires careful consideration.

Delegate Fei Yimin asked if, in order to prevent smuggling, arbitrage and counterfeiting, it was possible to control the use of foreign exchange certificates by relying on identification cards and passports carried by residents of Hong Kong and Macao, along with similar procedures involving foreign traveler's checks; delegate Wang Kuancheng expressed his agreement with this.

Delegate He Xian stated that he felt that the subject should be discussed comprehensively, that they should not treat the symptoms at the expense of the disease.

Delegate Xu Lihua stated that by using the method of converting the foreign exchange certificates into coupons (such as cloth ration coupons) the result might be quite a bit better than the present issuance procedures, although it would still be hard to stop the corrupt practices of price gouging in buying and selling, and black-market trading. Is it appropriate to require foreigners to use coupons to make purchases when they come to China? And so on. Everyone expressed tremendous concern over the measures to be adopted for these improvements.

Finally, Liu Tianfu said that with regard to the problems which have arisen in the issuance and use of the foreign exchange certificates, in addition to seeking resolution in the areas of the state's foreign exchange and control of banking, with regard to the factors of commodities prices, supply of goods, and overseas Chinese policies, the scope of involvement is very large, the effects of the policies are strong, and the situation is fairly complicated. He made suggestions on two points: one was to ask the State Council's Main Bureau on Commodity Pricing to conduct expanded examination and study of the new circumstances and new problems which have arisen with respect to foreign exchange economic activities, and resolve these step by step. The second was to set forth from the real situation in Guangdong to study methods to improve the control of foreign exchange. With regard to the problem of the use of foreign exchange certificates, they should perform a concrete analysis as well as intensify the control over foreign exchange, so as to effect a ban on illegal behavior such as arbitrage, smuggling and reselling at a profit. Moreover they should improve supply and services work for goods bought through tourism and overseas Chinese remittances to accommodate tourists from abroad. He recommended that, following their conference, concerned departments such as the Bank of China, the People's Bank, Commodity Pricing Main Bureau, Ministry of Foreign Trades and Customs should be asked to organize a combined fact-finding team to go to Guangdong to gain a thorough understanding on-the-spot and moreover invite citizens' delegations from Hong Kong and Macao to participate in joint research in order to find a viable means for improvement.

Comrade Bu Ming expressed his acceptance of the ideas and recommendations of the delegates, stating that he would carry them back and refer them to concerned ministries, commissions and offices, for further research and discussion. He said he hoped that the delegates would increase their inspection and oversight of foreign exchange control work, and hoped that the people's government of Guangdong Province and concerned circles would increase their support and assistance. (This originally appeared in RENMIN RIBAO, 19 Sep).

## FINANCE AND BANKING

### SHANGHAI CHEMICAL INDUSTRY HAS FAST CAPITAL TURNOVER RATE

Shanghai JIEFANG RIBAO in Chinese in Jul 80 p 1

[Report by Zhou Yongkang (0719 3057 1660): "Chemical Industry Bureau Has Nation's Capital Quickest Turnover"]

[Text] After more than a year of effort, the Shanghai Municipal Chemical Industry Bureau has found buyers for more than 20,000 tons of unsold products. The sale price was more than 100 million yuan. For the first 6 months of this year, production for this bureau has been up more than 7 percent over the same period last year, profits have been up over 10 percent, and circulating capital has decreased by 10 million yuan, destroying the old belief that for every 1-percent increase in industrial production, an increase of 0.06 percent in circulating capital was needed.

Turnover rate in days is the main standard for measuring the use of circulating capital. For the first 6 months of this year, the turnover rate of circulating capital for the Shanghai Chemical Industry Bureau was 28.5 days, down from 38.5 days in 1976 and equaling the 1965 rate, which was the lowest ever. The turnover rate for circulating capital in the Shanghai industrial and commercial departments were the fastest of all such departments in the entire nation, and the Shanghai Chemical Industry Bureau is the only one of Shanghai's industrial bureaus to reach the historic high levels.

According to the estimates of related departments, every day the circulating capital turnover rate can be shortened, the Shanghai municipal industrial and communications departments can deliver more than 100 million yuan of capital to the state. If all of the industrial bureaus of Shanghai could reach the highest turnover rate ever attained, as the Chemical Industry Bureau has done, the capital that Shanghai would turn over to the state would be equal to the expenditure for five Nanjing bridges over the Changjiang.

The most fundamental of the methods used by the Shanghai Chemical Industry Bureau to speed up its circulating capital turnover rate were to change the old management style of "sitting facing the south," overcome the longtime defect of emphasizing only production and not emphasizing turnover, and speed up the work of product sales. For example, they beefed up their product sales organs, added appropriate numbers of sales personnel, organized industrial and commercial joint sales units, and directed concerned provinces and municipalities to carry out sales. They strengthened technical services operations so as to let the customer understand the special properties of the products. They used every means to ensure customer satisfaction,

thus opening up new sales opportunities, and they unearthed large amounts of construction capital from the circulating loop. Recently the Chemical Industry Bureau summarized its sales operations and came up with 30 experiences.

A lack of finance and capital is a prominent problem in China's four modernizations. We understand that two thirds of an industry's circulating capital is used in the circulating loop, and one third is used in production. However, at present there are large amounts of products piling up in warehouses, representing large amounts of circulating capital. The circulating capital turnover rate in industry and commerce in the country is much slower than before the 10 years of chaos. Therefore, a good job of management and control in the realm of circulation will bring back to life a large amount of tied-up capital and let it circulate at a faster rate. This will have a major significance in reducing the nation's financial expenditures and in increasing capital for construction and production.

According to data that this reporter has had contact with, for every 100 yuan of industrial production for the entire nation, circulating capital represents 20.42 yuan, but for Shanghai this figure is 7.47 yuan--only about 36 percent of the national average. This means that the Shanghai Chemical Industry Bureau uses two-thirds less circulating capital than its counterparts in other provinces--about 700 million yuan. According to a responsible person on the State Planning Commission, if all state-operated industrial and commercial enterprises were able to reach the best turnover rate in history, as the Shanghai Chemical Industry Bureau has done, then they could return one-sixth of their circulating capital to the state, amounting to several tens of billions of yuan to be used for construction of the four modernizations. This is a very impressive figure.



## FINANCE AND BANKING

### BRIEFS

SHANGHAI SELLS APARTMENTS--Shanghai, Oct 29 (AFP)--A Shanghai construction company will soon start selling apartments here for those able to pay only in hard currency or foreign currency, reliable sources said today. The patriotic construction company handling the project operates under the auspices of the recently-formed Federation of Commerce and Industry in the eastern Chinese metropolis. The federation which functions more or less as a chamber of commerce is run by former capitalists. The patriotic construction company has the status of a "people's organization" and is financing the project with funds from the municipal budget and from overseas Chinese. Those acquiring the apartments will be mainly overseas Chinese for their personal use or for that of their relatives living in Shanghai. Shanghai which is now joining Guangzhou, Beijing, Nanjing and Fuzhou in providing such facilities, was the bastion of capitalism in China before the communists came to power in 1949. There has been an increase in the sale of apartments and buildings in this 12-million strong city and other urban areas in China which have a serious overpopulation problem. However under Chinese law those buying the apartments will have no claim to the land on which they are constructed. [Text] [OW290835 Hong Kong AFP in English 0825 GMT 29 Oct 80]

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## ENERGY

### CHINA'S ENERGY NEEDS IN YEAR 2000

Beijing XIANDAIHUA [MODERNIZATION] in Chinese No 9, Sep 80 pp 1, 9

Charts by Zhou Xiuzhang [0719 4423 3864] of the Institute of Scientific and Technical Information of China]

[Article by Gong Guangyu [6300 0342 4416]

[Text] How much energy will our country need in the year 2000? This is a matter of interest to everyone. Modernization depends to a large extent first on scientific development of energy resources, full supply of energy, and the rational utilization of these resources. As we proceed on a new long march we must provide for rainy days. We must have a pretty good idea of our energy resources and must carefully balance the ledger. Furthermore, we must take this as the basis to formulate energy policies and plans in accordance with the actual situation of our country and develop a complete energy industry system.

Per capita energy consumption is a major index for measuring the economic development of a nation and region.

Total world energy consumption for 1977 amounted to 9.4 billion tons of standard fuel.\* Of this amount, U.S. consumption constituted 2.8 billion tons; the Soviet Union consumed 1.7 billion tons. West Germany consumed 0.63 billion tons; Japan, 0.47 billion tons. Our country consumed 0.5 billion tons. However, the per capita energy consumption for the U.S. was 12.8 tons. For the Soviet Union, per capita consumption was 6.6 tons. West Germany consumed 6.3 tons per capita; Japan, 4.7 tons. World per capita consumption was 2.5 tons. Our country's per capita energy consumption was only 0.6 tons, only 1/20 of the amount for the U.S. So, what about our country's future situation? The long-term forecasting of our country's energy requirements is an extremely complicated problem. This is because it depends on various factors such as the national economic structure, the pace of population and national economic growth, the structure of energy production and consumption costs, the amount of energy imported and exported, price policies of energy resources, technological facilities, production technology and management levels, and the people's standard of living.

\* Each kilogram of calorific capacity constitutes 7000 kilo-calories of coal, called standard coal; also called standard fuel.

Per capita energy consumption is an overall index of the level of national economic development. The first method of calculation of the amount of energy consumption is that, based on each country's statistics in a modern society, consumption per person per year must reach 1.6 tons of standard fuel before the people's needs for food, clothing, shelter, transportation, and other requirements can be fundamentally satisfied (figure 1). [Not reproduced] If by the year 2000, our country's per capita consumption rate does not reach this norm, then it is very difficult to imagine that the entire national economic construction will reach the lowest standard of modernization. By the year 2000, our country will have a population of 1.21 billion. Our lowest requirement for energy will be 1.936 billion tons of standard fuel.

The second method of calculation is based on the proportion between the amount of the annual average energy consumption per person in each country of the world and the gross national product of the economy, so that when per capita gross national product reaches \$1000, the annual energy consumption rate per person will be 2.2 tons of standard fuel. So, by the year 2000, our country's minimum requirement will be 2.662 billion tons of standard fuel.

The third method of calculation is to make a forecast according to the elasticity value of energy consumption. The elasticity value is simply the ratio of the average annual growth rate of energy consumption with the average annual growth rate of the gross national product. This method is fairly suitable for forecasting the amount of long-term energy requirements. At present, it is employed everywhere abroad to generally forecast the amount of long-term energy requirements. If one knows the pace of growth for the national economy, it is not difficult to calculate the annual growth rate for energy consumption. If energy imports, exports, and stock-piles are considered, the entire amount of energy requirements can be appraised.

Although each country's economic structure is different, this elasticity value follows a common pattern. When each nation is in the initial stages of industrialization or when the national economy develops at a very swift pace, due to coal being the main source of energy consumption, industry rises proportionately, and the pace of the annual average growth in the amount of energy consumption more than doubles the pace of the average growth of gross national product. Thus, the elasticity value of energy consumption likewise is greater than 1, even exceeding 2. In the wake of industrial development and the increase in technological competence, there were particularly major changes which occurred in the energy consumption structure. There was a transition from coal to petroleum and natural gas as the main sources of energy consumption. Heat efficiency of fuel utilization continuously improved, the population growth rate decreased, and there was a change in the national economic structure. Thus, this value universally dropped, for the most part, to less than 1. During our country's first five-year plan (1953-1957), the energy consumption elasticity value was 1.38. The third five-year plan (1966-1970) and the fourth five-year plan (1971-1975) had somewhat of a drop; however, it was still greater than 1. During the period between 1953 to 1978, our country's energy consumption elasticity value was 1.22.

Referring to more than 30 years of practice, to aim for 1.2 as our country's energy consumption value during the period 1980-1990 is completely reasonable and well grounded. Considering the energy utilization rate and structure in the years ahead,

management and administration, improvements and rise in technology and equipment standards, it is fully possible for the energy consumption elasticity value for the period between 1991-2000 to reach the level of those nations now whose industry is flourishing, namely 0.85. In this manner, we can forecast the amount of our country's energy requirements under different paces of economic development.

If between 1981-2000, the gross output value of industry and agriculture increases at an annual average rate of 6%, then by the year 2000 our country's energy requirements will be 1.86 billion tons of standard fuel. Each person will average 1.55 tons of standard fuel, just enough to satisfy the lowest energy standards of a modern society for food, clothing, shelter, transportation, and other needs. If between 1981 and 2000, the gross output of industry and agriculture increases at an average annual rate of 8 percent, then in the year 2000, our country's energy requirements will be 2.75 billion tons of standard fuel. Per capita energy consumption will be approximately 2.3 tons of standard fuel, which is slightly more than the energy requirement amount of \$1000, constituting the per capita gross national product. If during the years 1981-2000, the rate of annual average growth of the gross output of industry and agriculture is lower than 6%, then in the year 2000, the per capita amount of energy consumption will not reach the lowest norm for satisfying the needs of food, clothing, shelter, and transportation in a modern society. The entire national construction will then not achieve the essential standard of the four modernizations.

From this it can be seen that in the year 2000, when our country will realize the four modernizations, population must be held to below 1.2 billion, and we must supply 2.75 billion tons of standard fuel. Only in this way can our country reach a per capita gross national product of \$1000 (figure 2). [Not reproduced]



## MINERAL RESOURCES

### YUNNAN GEOLOGIST FAN CHENGJUN'S CONTRIBUTION TO ORE PROSPECTING REPORTED

Beijing RENMIN RIBAO in Chinese 71 Jul 80, p 1

[Article by Zhang Bingsen [1728 3521 2771] and Wang Zhengduan [3769 2973 4551] of RENMIN RIBAO: "'Yunnan's Geological Expert' Fan Chengjun")

[Text] Well known as "Yunnan's Geological Expert," Mr Fan Chengjun [5400 2110 0971], who is also a veteran engineer, has spent more than three decades of his life traversing the mountainous Yunnan Plateau. Fearless of hardships or obstructions, he travels across mountains and rivers each year, exploring one mineral deposit after another, and solving one difficult problem after another, thus making important contributions to our motherland. This spring, he was awarded as a nationwide model geological worker, and enrolled in the Chinese Communist Party. For a long time, he has been in charge of the technical operations of Yunnan Province's Regional Geological Survey Team, which is the only team of its kind throughout the whole country that has been awarded with the glorious title of Meritorious Team by the Ministry of Geology.

Fan Chengjun is currently deputy director of the Yunnan Research Institute of Geological Science. This year, based on the information provided in the plans for prospective mineral regions which had been formulated under the supervision of Mr Fan, the Provincial Geological Bureau assigned seven geological teams to the Lancang River area where they began a general survey along the river banks in quest for a great variety of metallic minerals. In no time, the prospectors found ore points or evidences of such valuable metals as tungsten and tin; some teams have already come up with the reserves of certain mineral deposits. Many geological workers appreciate the thorough and detailed information provided by the preceding plans which not only embody great scientific foresightedness, but also accuracy in pinpointing promising sites. Moreover, Fan Chengjun's outstanding contribution to the formulation of the plan has won the unanimous acclamation among the geological workers.

After he graduated from Yunnan University's Department of Mineralogy and Metallurgy in 1955, Fan Chengjun has settled down to geological technical work in Yunnan Province. Way back in 1958, he became an engineer and assumed total charge of all the technical projects in Yunnan's Regional Geological Survey Team.

Although he is the top responsible person in the technical field, Fan Chengjun has never allowed himself to rest content with such indoor work as reading charts and maps, drawing up plans, or organizing and compiling reports. Instead, he prefers to spend most of his time outdoors doing field work, such as investigating and

and studying ore points, and solving all sorts of tough problems encountered in field work. Once with a backpack weighing over 10 kilograms, Fan Chengjun went on a long excursion with a group of geologists. They set out from Dali's Cang Mountain, cut through Wuliang Mountain, climbed over the steep peaks and ridges of the Hengduan Mountain Range, and penetrated right into Mangshi in the Dehong Autonomous Prefecture of Dai and Jingpo Nationalities, covering more than one thousand kilometers on foot in over a month's time in search of reliable data which would help determine the geological age of this region.

Last year, Fan Chengjun undertook the task of formulating the entire province's plans for prospective mineral regions. Piecing together sorting data from the past, he conducted five successive field investigations to verify the data, spending over a month for each trip. There is literally no place where he has not set foot on--in the highest mountains, the deepest gorges, the hottest flatland, or the coldest snow mountains of the entire province.

Based on many years of extensive, painstaking and meticulous regional geological survey work, Fan Chengjun and his geological workers have come up with laws of mineralization which are quite instructive and provide bases for mineral prospecting and solving certain basic problems in Yunnan's geological work. Based on investigation of 20-30 mineral resource sites, the geological workers have discovered 18 large mineral deposits and 4 medium ones. Currently verified mineral deposits include Dianzhong's copper, Lanping's tremendous reserves of lead and zinc, and Yuanmo's platinum. There are also some mineral deposits which have been found in general surveys but still require further exploration, such as tin, iron, copper, etc. Remarkable results have also been achieved by Yunnan's Regional Geological Survey Team which had been under Fan Chengjun's supervision in technical operations for a long period of time. In the span of more than 20 years, a total of almost 200 prospective mineralization zones have been discovered in the course of general surveys, and some 200 general survey reports on mineral resources have been submitted. Fan Chengjun knows Yunnan's minerals like the palm of his hand, and all his colleagues agree that he is indeed "Yunnan's Geological Expert."

## INDUSTRY

### CHONGQING WAR INDUSTRY PRODUCES CIVILIAN GOODS, HELPS LOCAL INDUSTRIES

Beijing RENMIN RIBAO in Chinese 25 Aug 80 p 3

[Article: "Chongqing's War Industry Uses Its Superior Technology and Installation to Produce Civilian Goods and Help Light/Textile Industries"]

[Text] Departing from the aim to help regulate the overall national economy, Chongqing's war industrial enterprises are using their superior technology and equipment to produce civilian goods and help boost the local light industries. Up to now, they have already produced 162 different kinds of civilian goods, and helped the local light/textile industries to complete 60-odd technical innovation projects. Through preliminary efforts, remarkable changes have taken place in the outlook of Chongqing's war industrial enterprises. Last year alone, the profits amounted to over 42 million yuan RMB, and over 90 percent of the city's war industrial enterprises have reversed the long-standing deficit situation.

In compliance with the supply and demand situation of domestic and foreign markets, and based on its own technological characteristics and the availability of its own technical force, working clothes, equipment, factory buildings, etc., Chongqing's Jialing Machinery Plant decided to manufacture light motorcycles. Through four months of investigation, surveying and drawing, designing and trial manufacturing, and with the coordinative assistance of related organizations, the plant produced its first successful "Jialing brand" XM-50 prototype motorcycle on September 5. Performance tests indicate that as far as maximum speed, gas mileage, sparkplug temperature, exhaust pipe temperature are concerned, the product has reached the advanced level in some aspects, and is very close to the advanced level in other aspects. The first batch of products was well received by users. Now the products are produced in large quantities, thus putting an end to the previous "short of demand" status.

The war industrial enterprises are also using their superior technology and equipment to help light and textile industries with their technical innovations. Since last year, they have been contacting Chongqing's bureaus and corporations of light and textile industries, as well as their subordinating plants and mining enterprises to exchange information and discuss about technical installations. Through such activities, both sides became acquainted with each other's situation, thus enhancing the relationship between the war industrial enterprises and the light/textile industrial enterprises. So far, they have already helped the Chongqing Shanhui Electric Appliances Plant to produce three kinds of large-size molds which have complicated

structures and weigh several tons. To help Chongqing Furniture Factory No 2 to complete its newly installed shaving board production line, they accepted the task of manufacturing heating plates which require sophisticated technology. In order to rapidly expand their contractors' production capacity for making special equipment, such as vulcanizers for the Chongqing Tire Recapping Plant, filter tip machines for the Chongqing Cigarette Plant, leather scalders and stretchers for the Chongqing Leather Plant, etc., they have offered to send their own technicians to help the contractors with the designing, manufacturing, installation and operation of the equipment. Such efforts have not only greatly promoted the growth of local industries, but also compelled the war industries to improve their own technical and management level.

9119

CSO: 4006



## INDUSTRY

### GUANGDONG ACCELERATES DEVELOPMENT OF LIGHT INDUSTRY

Guangzhou NANFANG RIBAO in Chinese 10 Sep 80 p 1

[Article: "Rapid Development of Light Industry in Guangdong Province; Production Increased 17.2 Percent in the First 8 Months"]

[Text] Since the beginning of this year, the development of light industry in this province has been very rapid. Total production for the first 8 months of this year was 9,034,000,000 yuan, an increase of 17.2 percent compared with the same period last year, surpassing the levels of 11.2 percent for all industrial growth throughout the province and 2.8 percent for heavy industry. The state of industry all over the province, and especially the trend which persisted for many years whereby the growth rate of light industry was lower than that of heavy industry, has been altered.

Light industry has a long history in this province, and its products have established a good reputation in the market here as well as abroad. It occupies an important position in the national economy of the province. In order to fully develop this strongpoint, since last August, and especially since the beginning of this year, party committees at every level in our province have shifted the emphasis to development of light industry by mobilizing various departments to assist light industry in solving various practical problems, including the supply of raw materials, fuel, power, capital, transportation, and links between production and distribution on the one hand, while encouraging direct contacts between producers and consumers on the other hand, in order to promote production and carry out the revitalization of production. There has been an 80-percent increase this year in the funds allocated to light industry by the provincial government this year that have been earmarked for technical assistance as well as foreign exchange for the import of raw materials. The electric energy supply has satisfied the basic needs of industry, so that the great majority of light industry was fed well and operated at full capacity. Conditions favorable to rapid development have been created. Local and municipal governments, together with departments in charge of industry, have conscientiously re-organized the product structure and some of the production goals. They have actively served to promote development of light industry and helped to expand its production capacity.

As a result of accelerated development of light industry, the industrial standard of the entire province has been raised. During the first 8 months of this year, light industry for the entire province increased production by 1.3 billion yuan over the

same period last year, surpassing the total increase in industrial production for the entire province as called for by the Provincial Party Committee this year. It has raised the provincial industrial growth rate from the 3.4 percent achieved during the same period last year to 11.2 percent this year. During the first 7 months of this year, the profit realized from 100 yuan of production by nationally operated industries in the province increased 8.9 percent over the same period last year, realizing a total profit of 730 million yuan and a warehouse profit of 550 million yuan. This represented an increase of 15.4 percent and 18.1 percent, respectively, over the same period last year. More than 80 percent of the increase in industrial warehouse profits throughout the province is due to light and textile industries. As a result of a significant increase in the products of light industry, including textiles, foodstuffs, household electric appliances, and a large quantity of daily industrial products, the contradiction between supply and demand that existed for a long period of time due to shortages of goods is gradually being relaxed now. A number of living necessities are in abundant supply. A certain provincial light industry system turned out products valued at some 560 million yuan in the first 7 months of this year alone, surpassing production during the same period last year by 21.3 percent.

9113

CSO: 4006

## INDUSTRY

### LIGHT INDUSTRY ENGINEER SAYS PAPER SHORTAGE CAN BE TURNED AROUND

Beijing GUANGMING RIBAO in Chinese 25 Sep 80 p 2

[Article by Dong Kegong [5516 0344 1872]: "Paper Shortage Conditions Can Be Changed"]

[Text] Recently, because of the problem of short paper supplies, this reporter visited the chief engineer of the Ministry of Light Industry's Scientific Research Institute, Comrade Yu Yiji.

Yu Yiji spoke on the aspect of our country's paper manufacturing industry development. He said that in our country from 1949 to 1978 the speed of growth of the paper industry, in view of growth speeds of paper industries worldwide and development speed of our country's overall national economy, has not been slow and was to have been sufficient to basically meet the requirements of our country's national economy development. Based on population, our country presently has an average 5 kg of paper per year per person (worldwide, the figure is on average 40 kg per year per person). However the rural population of our country is great and presently the volume of paper used by the rural areas is quite small. The great majority of paper is used in the cities. If an estimate is based on city population, approximately 30 kg of paper can be supplied per year per person. Based on the present economic situation in our country, this figure is not considered too small.

Therefore, why is it that in the cities paper remains a shortage commodity? Yu Yiji said that the key is that in our country's paper industry there are several types of paper whose production volume gets lower every day. In short supply among these are, particularly, newsprint, whose use is the broadest, comparatively good quality printing and writing paper, strong wrapping paper, and paperboard.

What are the chief causes which create shortages in these types of paper? Yu Yiji said that there are many reasons but the chief one is an insufficiency of raw materials. The principal raw material used for these types of paper is wood. At present the wood used in our country as raw material for making paper only constitutes 22 percent of the total amount of fibers used in making paper, and when imported wood pulp is added in, the total is only 26 percent. This proportion naturally fails to satisfy the increasingly developing national economy and requirements of scientific and cultural undertakings with regard to these types of paper.

In early times, there was seen the use of various types of grasses and rag fiber materials in paper manufacturing. However, having undergone development during

the past 100 years, wood has increasingly become the most important fiber material used in the paper manufacturing industry. Paper manufacture dependent mainly on wood occurs not only in countries rich in forest resources. Countries whose forest resources are comparatively few are also making an energetic transition in this direction.

That wood has gradually evolved as the chief fiber material used in the paper manufacturing industry lies not only in the reason that the volume of wood is large and concentrated, and thus satisfies the needs of the continuously-developing paper industry, but also in the fact that it meets the requirements of the characteristics needed in most paper. Additionally, because of its multipurpose utilization and rational utilization of wood resources, the use of wood for making paper is a comparatively good method which is capable of achieving fairly good economic results. Our country currently consumes 200 million cubic meters of forest resources annually of which the amount used for paper does not exceed around 2 percent. Apart from that portion of the 200 million cubic meters of wood which is lost or otherwise wasted in the forest regions, a fairly large volume is wasted in the course of processing or burned as fuel. Because of this, elimination of waste and rational utilization should provide our country's paper industry with a fairly great amount of wood material.

Internationally, there are many previous examples of the practice of not adding to the amount of wood extracted while greatly increasing the proportion of materials used for paper manufacturing. From 1913-1954, the volume of wood extraction in Finland increased only by 3 percent but in the same period the amount of paper produced from wood and wood pulp grew 7 times, while the number of trees growing into useful timber grew 20 percent. The main thing experienced by these countries was a reduction in the amounts of wood materials which were burned or used in packaging and an increase in the multipurpose usage rate of wood with a reduction in the rate of material wastage. These experiences are worthy of our reference. Yu Yiji said that wood is a renewable resource. There are still many mountains and other land sections which are suitable for forestry. All that is needed is for measures to be adopted so that a comparatively large number of bases for wood raw material for paper can be provided. In order to increase step-by-step the proportion of wood used for paper manufacturing, Yu Yiji is emphatic in saying that the disparate situation existing between production and raw materials in our country's paper industry must be changed with all possible speed, and that the strengthening of the integration of the paper industry with the forestry industry is apparently necessary. This is very crucial to the rational multipurpose utilization of current forest resources and to building wood material bases for paper manufacturing.

Paper making was one of our country's three major discoveries in ancient times. It has a long history of over 2,000 years in our country but it has only been in the past 100 years that we have fallen behind when compared with countries in the world whose paper industries are advanced. However, we already have a definite foundation with, moreover, a definite latent energy. We need only adopt forceful measures and resolve the several problems hindering development of our country's paper industry and we will be able to rely entirely on our own strength to satisfy the requirements levied by the national economy on the paper industry with regard to quantity, quality, and variety.



## INDUSTRY

### BRIEFS

TIANJIN TV PRODUCTION--Tianjin, October 23 (XINHUA)--China's first color TV production line with an annual capacity of 150,000 sets has gone into operation in the North China Industrial City of Tianjin. It produces 14- and 22-inch sets. The production line imported from Japan was specially designed according to China's conditions. It was completed in 11 months. China now has more than 40 enterprises producing TV sets. Their total output last year was 1.3 million sets, two and half times the figure in 1978. It is expected to exceed the two million mark this year. Eight Chinese television factories have signed contracts to import color TV production equipment from Japanese companies. [Text] [Beijing XINHUA in English 0746 GMT 23 Oct 80]

CSG: 4020

## CONSTRUCTION

### TARDY INSTALLATION OF UTILITIES KEEPS FINISHED HOUSING FROM BEING USED

Beijing GUANGMING RIBAO in Chinese 25 Sep 80 p 2

[Article: "200,000 Square Meters Of Residential Building Completed But Not In Use; Key Link Is Utilities Installation"]

[Text] Recently the Municipal Capital Construction Committee held a conference at the Jingsong Residential District, which is under construction. They decided to accelerate installation of utilities and checks and acceptances in those buildings already completed, in striving to release for use the 200,000 square meters of residential buildings already finished. This residential district is located at Guangqu Menwai, and extends from the city moat in the east to Donghuan South Road in the west. It adjoins the Chuiyangliu residential district on the north and extends on the south to the Nanmofang Commune. It occupies 850 mu and will have an estimated 860,000 square meters of residential buildings (including 120,000 square meters of welfare facilities). Once building is completed, the entire district will hold 12,000 households, 50,000 people. Up to the present time, 420,000 square meters of buildings have been completed, and only 220,000 are ready for occupancy and the other 200,000 square meters are finished but have not been released for use; some of this construction has been completed for more than a year.

At the beginning of this conference, the responsible comrades of the capital construction committee and the responsible people of the various bureaus and corporations participating in the construction began by touring various construction sites and already-completed buildings. When they discovered that the grounds surrounding the construction were rough and ungraded, and that everywhere there were broken bricks and tile fragments, trash and dirt clods, the responsible comrades of the capital construction committee registered their criticism.

When the conversation reached the subject of the large group of apartments which are finished but which cannot be handed over as a completed project, everyone expressed the belief that it was a tremendous waste and that the best possible use should be made of time in order to resolve existing problems. According to the results of analysis, the causes for the situation described above were many. One is that the mission is a major one and the requirements are urgent, added on to which the capital investment by the municipal government was insufficient and it was impossible to install the various utilities prior to completion of construction of the buildings. This resulted in construction of the buildings without connected water and electricity and other convenience facilities; no one could reside therein.

Secondly, the activities of the various construction units were poorly coordinated for cooperation and stages were not continuous with the result that part of the already completed buildings could not undergo check and acceptance in a timely manner. Thirdly, the work of the leading bodies was not thorough; there were several problems which they were unable to discover and resolve in a timely fashion.

At the conference it was resolved that leadership teams would be organized from among concerned leading comrades of municipal construction, governmental, and housing administration bureaus as well as from the municipal general construction office. These teams would be responsible for resolving the problems existing with regard to the construction here. At the conference it was pointed out that presently the main goal at the Jingsong Residential District is to grasp the acceptance and checking to allow release for use and that other work must be held in abeyance for this purpose. If the grasping of the winding-up of the project so it can be handed over as fully complete will influence the rate of progress of construction currently underway, the plan for completed construction for this year may be reduced. The conferees requested that the various construction units act in accordance with the spirit of serving the people, and unite as one to grasp the completion of this construction without wrangling with each other and blaming each other.

As for problems existing with regard to the quality of certain construction materials, they should set forth from the real situation, repair that which should be repaired, and exchange that which should be exchanged. Construction units will remain responsible for correcting any deficiencies discovered up to one year after checks and acceptances are concluded. After the conference the municipal government's engineering bureau and the First Residential Corporation transferred manpower to grasp well the construction of gas lines and electric utilities, and the First, Second and Fifth Building Corporations also began to dispatch workers to put the construction sites in good order.

# BRIEFS

**TIANJIN WORKERS CONGRESS**--Beijing, October 30 (XINHUA)--New housing in Tianjin, a major industrial center in North China, will be distributed under the supervision of workers' congresses to prevent leading officials from using their influence to get housing space in excess of their rightful share. According to today's "WORKERS' DAILY," the Tianjin Trade Union Council has decided that distribution of new housing in a factory will be entrusted to a committee consisting of leading cadres and workers' representatives. No one will be allowed to change the distribution plan, once it is approved by the workers' congress. Workers and staff members, irrespective of sex, enjoy equal right to housing, the decision added. The trade union council's decision has the support of the municipal party committee and the municipal government. China has made substantial headway in housing construction over the past two years. But the problem remains acute because virtually no housing projects were built in the chaotic decade, 1966-1976. Last year, China built 62 million square meters of housing projects, accounting for 10 percent of the total built in the country after 1949. It plans to build approximately the same number of housing projects in cities and industrial areas this year. [Text] [OW301307 Beijing XINHUA in English 1240 GMT 30 Oct 80]



## TRANSPORTATION

### GOALS FOR HIGHWAY MODERNIZATION CONSIDERED

Beijing GONGLU [HIGHWAYS] in Chinese No 8, 25 Jun 80 pp 6-9

[Article by Cheng Dahan [7115 6671 3352]: "Modernization of Our Country's Highways"]

[Text] Today, the whole nation as a body is sufficiently enthusiastic about the four modernizations and the whole nation is united in undertaking the new long march for the sake of construction of the four modernizations. Modernization of the highways is not only one of the components of the four modernizations but also a modernization which is the precursor of the four modernizations. First of all, we understand clearly the goals and responsibilities of modernizing our highways and the steps and methods that must be taken in order to achieve these goals. Only by so doing are we able to turn highway modernization construction into a more self-confident activity and thus contribute more to the four modernizations.

Modernization has a worldwide significance. Any nation which desires to modernize must take the world's advanced standards as its goal. A nation can join the ranks of modernized nations only if it catches up with or surpasses the new achievements created by the industrially developed nations. However, the levels of modernization among the world's more advanced nations are quite uneven. We must regard modernization as a process of social progress. There must be a stage of transition from junior grade to senior grade. Therefore it is not necessarily scientific to fix an absolute standard for modernization.

This nation is economically backward. The four modernizations, to us, are fresh events. What is modernization, anyhow? How is modernization implemented? There are some foreign models we can study and foreign experiences we can use as mirrors and warnings. Only after understanding the world, studying the world, and knowing more about the advanced levels that have been achieved elsewhere in the world can we clearly recognize and correctly understand the goals of our own effort.

The world's advanced industrial capitalist nations have all realized highway modernization today. From the circumstances of these nations we can see that the main content of highway modernization includes the following items: 1) establishment of a modernized highway network; 2) development and popularization of advanced highway science and technology; 3) mechanization of road construction and maintenance, in order to significantly increase the labor production rate and to guarantee engineering quality; 4) realization of modern management; and 5) the fundamental objectives of highway modernization, including realization of large traffic volume, high speed, low cost, safety, and comfort.

The United States, Japan, and the West European nations have spent nearly a century and a large sum of capital to build the scale of highway system they have now--namely, a highway network going in every direction, consisting of expressways and trunkline roads as the skeleton with interconnecting arteries. In 1977, the total highway mileage of the United States was 6.22 million kilometers. On average, there were 0.66 kilometers of highway for every square kilometer, 290 kilometers of highway for every 10,000 population, and every inhabited point can be reached by automobile. The total mileage of surfaced highways was 5.02 million kilometers, of which 3 million kilometers are of top-grade or next to top-grade surface. There is a network of expressways 78,300 kilometers in total length. This expressway network, which occupies only 1 percent of the total highway mileage, carries 20 percent of the total highway traffic volume. On average, there are 16,000 cars travelling 1 kilometer of an expressway every 24 hours. The average cruising speed of large buses and freight trucks on these roads reaches as high as 90 kilometers per hour. The accident rate on expressways is one-half to one-third that on ordinary roads. In the West European nations, such as England, France, West Germany, and Italy, the highway density per unit area is in general greater than that in the United States; however, their density per population is less than that of the United States. The proportion of top-grade surface roads in these countries is greater than that in the United States. For example, almost all road surfaces on British and West German highways are either pitch or concrete. The expressway networks of other European nations are also quite advanced. After shaping the skeleton of each individual nation's highway network, they gradually link up the major expressway networks of various nations, thus shaping the international traffic trunklines. The development of a highway system in Japan started later, lagging 20-30 years. However, since the 1960's, the Japanese construction rate has greatly accelerated. By 1978, there were 1,097,000 kilometers of highways in Japan, amounting to 2.91 kilometers of highway per square kilometer of land area; 95 kilometers of highway per 10,000 population; and total expressway mileage of 2,195 kilometers. Although the highway density is very high in Japan, these roads include a large portion of county roads with relatively low standards. The percentage of paved roads is only 40 percent. There are approximately 400,000 kilometers of top-grade surface roads. The degree of development of the entire highway network in Japan is still lower than the United States and the European nations. Nevertheless, Japanese highway construction has, on the whole, already entered the ranks of the modernized [highways].

Highway construction used to be a labor-intensive enterprise abroad, absorbing a large volume of the unemployed population. For example, after World War I, the majority of the labor force in the United States and the European countries was engaged in highway construction. However, since the 1950's mechanization of highway construction in some industrially developed countries developed very rapidly. Today, such nations as the United States, the European countries, and Japan have all realized overall mechanization of road construction engineering and are moving toward automation. Mechanization has also been realized in road maintenance. In 1976, West German road construction enterprises had nearly 250,000 pieces of various types of road construction machinery and some 129,000 road construction workers. On average, there were 1.93 pieces of roadbuilding machinery per worker. An annual business of as much as 11 billion marks was carried out, amounting to an average of 85,200 marks (equivalent to 67,850 yuan in Renminbi) of engineering work per worker. In 1977, French road and airport construction enterprises had as many as 100,000 workers, and an annual business of as much as 15.3 billion francs was carried out, amounting



According to my humble viewpoint, highway modernization in this country ought to start out according to need and feasibility, according to the demands created by the development of agriculture and industry, while taking into consideration the scope of highway network development and the demands on the technological level as well as on engineering quality. We should make the satisfying of the need of the four modernizations the goal of our highway modernization, and take the rates of the world's advanced nations as judged by a certain major aspect of highway network construction.

The statistical data gathered every year over the years indicate that highway transportation in this country has maintained a pace approximately with the growth of the national economy. In a period of 25 years from 1953 to 1978, our total agricultural and industrial production increased steadily at an annual rate of 2.1 percent. Of this amount, the industrial production growth rate increased at a rate of 11.8 percent, while the growth rates of the volume of freight transportation and the volume of freight cycle accomplished through the automobile by the highway transportation department were, respectively, 12.8 and 13.6 percent. There are no accurate statistical data available today concerning the growth rate of volume of highway traffic. According to typical investigations, the traffic volume on some trunkline highways is increasing at an annual rate of 10-13 percent. Based on this development trend, even if the highway transportation growth rate in the next 20 years did not duplicate the pattern of the past 20 years, a very high rate of growth would be maintained. We assume that by the year 2000 our average national income will reach 1,000 dollars per person, which is three to four times more than the present level. If we estimated the future of our highway transportation according to this goal, then by the end of the 21st century the volume of highway freight transportation would have grown more than tenfold over the present volume, and the average annual growth rate would be more than 8 percent. The highways of this country today are still in a state of backwardness. Highways are small in number, low in standard, and inferior in quality. In 1978, the total length of our highways was 871,000 kilometers. Top- and second-grade roads carried 90 percent of the traffic, third-grade roads, 13 percent, fourth-grade roads, 40 percent, and roads of other grades, 5 percent. Top-grade and most top-grade surface roads are 100,000 kilometers in length. The absolute majority of road surfaces are earth. In view of the great demands made by the four modernizations, the task of highway modernization in this country is very difficult.

From my personal viewpoint, in solving some of the problems of highway modernization will be designed as follows:

Modernization of trunkline highways. According to the condition of this country, highway traffic volume is concentrated mainly on trunkline highways. Various European nations and the United States have placed emphasis on construction of trunkline highways and technological renovation of trunkline highways as the main theme of highway modernization construction. Highway modernization in this country likewise requires a high standard of trunkline highways network as the foundation of highway network. With the national highway network under discussion as a foundation, I estimate that within 10 years or so we can construct 100,000 kilometers of trunkline highways of first, second, and third-grade roads with an average standard further. However, in a road engineering aspect, many trunkline highways today carry a traffic volume as high as 10,000-15,000 cars a day, the peak as high as 20,000 cars a day in some isolated sections. According to the above estimate, the modernized traffic volume will reach 10,000-20,000 cars a day in the next 20 years. During



fore, it is quite necessary to build expressways. However, due to lack of capital and land, expressways cannot be expected to become a network even as late as the year 2000. Under most general circumstances, expressways will most likely to be constructed around large metropolises for the purpose of dispersing overly dense traffic flow.

2. Density of highway networks: At present, the highway density based on area or population in this country is much lower than in the European countries, the United States, and Japan, and even lower than India. Starting out with an objective to support agriculture and to promote the circulation of goods between cities and villages, we must aggressively develop county and commune highways. However, there are many mountainous areas in this country where construction work will be extremely difficult. I presume that by the year 2000, there will be highways reaching every commune and roads connecting every battalion, thus basically satisfying the needs of the four modernizations. Needless to say, the highway density at this stage will still be lower than that of the above-mentioned nations today.

3. Mechanization of road construction and maintenance: This is one of the indexes used to measure highway modernization abroad. The situations are different in this country. The level of mechanized road construction is still very low, and road maintenance is still basically done by hand. It is impossible for us to achieve the level of mechanization of the United States and the European countries today within the next 10-20 years. Besides, there is an abundant labor force resource in this country. Highway enterprises should develop mechanization according to the different and unique circumstances of this country. Trunkline highway construction may achieve mechanization first. As for the construction and maintenance of other ordinary highways, mechanization or semimechanization can be carried out gradually. As for the development of various types of machinery, the emphasis should be on developing machinery that can guarantee the necessary quality of the work.

4. Funding for highway construction: Construction of modern highways requires a huge sum of capital. We must aggressively exploit capital sources on the one hand and continue to strictly control the construction costs on the other hand in order to save capital. The source of the road-construction fund should be multifaceted. The county and commune road-construction fund should come mainly from the people, with suitable assistance as a supplementary source. The source of the road-construction fund should be diversified. The government should increase a portion of the taxes (including land tax) and use it for the construction of trunkline highways. The situation being realized by a forty-one percent increase in 1981, the government will put take yet 10 percent. Trunkline expressway construction fund, when he started. Others are, maintenance of highways, etc. As the road grows.

5. Highway traffic and highway transportation: Traffic and freight volume highway transportation will create favorable conditions for increasing the volume and speed of highway transportation. However, according to the historical background of China, traffic volume and freight volume of the development of the country and transportation is still low. The road and the air and water transport and railway and will remain the main means of transportation. We should, under the leadership of the government, develop the transportation system, fully demonstrate the advantages of highway transportation (speed and flexibility) and make it become the main means of short-distance transportation. At the same time, the

passenger transportation between major cities should also be developed appropriately. We must construct our highway network according to the characteristics of our highway transportation described above.

The opinions described above may be comparable to the opinions about a leopard seen through a tube; mistakes are therefore unavoidable.

9113

CSO: 4006

## TRANSPORTATION

### BRIEFS

JIANGSU HIGHWAY, APARTMENT SCANDAL--Beijing, October 23 (XINHUA)--Work units building a 24-kilometer stretch of highway in Jiangsu Province, misappropriated enough funds and materials to build three apartment buildings and an office and to pay for staff pleasure trips to neighboring provinces, the "GUANGMING DAILY" reported today. As a result, the road between the provincial capital of Nanjing and Luhe County cost 35 million yuan and began to break up three months after it was opened to traffic, the paper said. Under the heading "How a Bumpy Highway Was Built With Huge Sums of Public Money," the newspaper said this is not an isolated case and called on readers to send letters or articles "exposing this evil wind and praising people who fight it." The "GUANGMING DAILY" said that 137 tons of rolled steel, 1,200 tons of cement, 500 tons of asphalt, 43 tons of coal, 170 tons of lime and 316 cubic meters of timber were misappropriated by work units and individuals involved in building the Nanjing-Luhe highway. "The actual figures will be much greater when the accounts are thoroughly investigated," it said. The Luhe highway construction team gave 200 tons of cement in exchange for gas cylinders which are scarce, the paper said and it named the Luhe communications bureau in the apartments scandal. [Text] [OW231250 Beijing XINHUA in English 1221 GMT 23 Oct 80]

CSO: 4020

GENERAL

BRIEFS

CEMENT TECHNOLOGY SEMINAR--Beijing, October 24 (XINHUA)--An inter-regional seminar on cement technology closed here today after discussing energy-saving techniques, multi-purpose use of resources, pollution control and related problems. Thirty-five representatives from 17 Asian, African and European countries attended the two-week seminar, which was jointly sponsored by the United Nations Industrial Development Organization and China to promote cement technology in developing countries. During the period, the representatives visited cement plants in Shandong and Jiangsu Provinces, East China. They showed particular interest in the simple but efficient equipment introduced there to mechanize or automate production processes. They also remarked that China should not have built some cement plants in cities, because they are far away from raw material producing areas and cause pollution. [Text] [OW270926 Beijing XINHUA in English 1500 GMT 24 Oct 80]

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